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QI Panel:

Book Talk | Why Politicians Lie About Trade

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Karthik Sankaran 0:00

Good morning. Good morning, and welcome to our chat with Dmitry Grozoubinski. I'm Karthik Sankaran, Senior Research Fellow in geoeconomics in the global south program at the Quincy Institute for Responsible Statecraft. The Quincy Institute is a trans-partisan think tank based in Washington, DC, working for a world where peace is the norm and war is the exception. Through our research, writing and advocacy, we strive to move us foreign and security policy away from global domination and military adventurism towards diplomatic engagement. We believe this is the best way to defend America and to serve the interests of the American people.

I'm absolutely delighted to have Dimitri, Dmitry Grozoubinski here. He is a trade practitioner, a trade expert and all-around funny guy, and I'm looking forward to a fascinating conversation with him. I wanted to mention that viewers can put questions in the Q and A box, and we will get to at least some of them, either during the course of our discussion or perhaps, or perhaps at the end, but we definitely have lots of room for audience questions. Let me start with Dmitry here and ask him to tell us a little more about his background and why he wrote this book. And Dmitry, why did you choose the title that you did?

Dmitry Grozoubinski 2:19

Thank you so much for having me. It's a pleasure to be with you. Let me begin by saying that I can, I can see my internet occasionally stuttering, so if you all see me freeze, it is not because Karthik has stumped me with a question, but because I am having technical difficulties, though it is possible I am just faking that because he's stumped me with a question. My background I was I joined the Australian Department of Foreign Affairs and Trade back in 2012 I had a master's in trade policy, and I ended up getting posted to the World Trade Organization, or our mission to it, working on a range of issues. And thereafter, I decided to stick around in Europe, and found myself in a very strange place, because over here on this side of the Atlantic, in 2016-ish, Brexit had really kicked off, and that had kicked off, especially in the UK, a massive kind of debate about trade policy, and really propelled trade policy into the headlines in a way we didn't see until much later in the US, for example, and I kept seeing really public figures, including public intellectuals, saying things about Brexit implementation specifically that I thought were, frankly, dangerous, you know, dangerous to people's livelihoods.

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But But even more than that, you know, the consequences for getting trade policy wrong for things like for people like farmers can be quite literally fatal. And so I found myself in a weird position where I was one of the few people who seemed to be on the one hand terminally online, on the other hand with some credentials and experience in how trade policy works, and on the third hand, able to speak publicly because I wasn't working with the government at the time, and so I started sort of wading into the public debate to just sort of say, hey, this isn't quite how this works. Or you should stop saying this kind of thing. It's really dangerous. People are going to get hurt. And so through that, I sort of built the career I have today. And at some point, as you do, when you are sick of being introduced on stage exclusively by your number of Twitter followers, you try to do you try to give people literally something else to point to by way of introduction. And so I started writing, writing this book, which came out in 2024 which, in hindsight, the Trump administration has been wonderful for my for my book sales. But there are a number of things I'm now having to update for the soft for the soft cover edition, the. I didn't anticipate quite how bad things would get.

Karthik Sankaran 5:03

Well, I'm very glad, I'm very glad to hear that, because we have, I have lots of questions, and I mean, it's interesting you're talking, you know, as a practitioner, you're very familiar with the nuts and bolts and the alphabet soup, as it were, of the different trade entities out there, but stepping back because you mentioned what's happening in trade policy right now, I thought it might be helpful just to get a sense of because people have staked out different stances on trade and you've taken, I think, a very sound positions somewhere in the middle of all this. But you know, you note that in your book that trade has winners and losers, which is something that is a facet of an increasingly important facet of politics over the last 10 years. But you've also said interventions in trade should happen. Interventions in trade between countries should happen only for for compelling reasons. Is that a is that a contradiction? I mean, how would you position yourself in the debate that's happening right now around the world.

Dmitry Grozoubinski 6:24

So I'm, I try to be as unideological about all of this, as unreligious about all of this, as I can be, in a sense that there are those who are, say, opposed to any government intervention, some who believe that tariffs are unthinkable, that you should never, ever have them, or that you should never sort of get in the way, get between a buyer in one country and another. I try not to go down that path and instead to as dispassionately as possible say, well, listen, this is a policy like any other. If I decide to tax you for bringing in goods from a foreign supplier. That isn't like massively different from me deciding to tax your income or tax cigarettes or whatever have you. It's a policy. It is going to encourage some behavior. It's going to discourage some behavior. It's going to raise some revenue. It's going to have some costs.

So what I try to my position tends to be, look, you don't have to have any kind of preconceived notions. Governments are talking to their public, they're talking to their voters, they're talking to their constituents, and they're saying, here are a range of problems we can see. Maybe you

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don't have enough factories, maybe growth isn't as high, and this is our prescription for solving them. We are going to do the following three things. And so my position is, okay, let's have a conversation about that. Let's talk through what are you hoping to do? What are you hoping to change, and why will intervening in this way lead to the outcome you want. Why will tariffs lead to new factories? Talk me through it. Talk me through. Let's make sure that everyone listening understands your vision for the country and why. If you do, if you take the following steps, it'll achieve what you're claiming it will achieve. And that's sort of how I tend to come I'm I don't tend to take particularly strong positions on a lot of things, beyond just being honest and truthful about the implications of policy.

Karthik Sankaran 8:30

And the title of your book suggests that you're not actually satisfied with the with with the terms of the with the terms of the debate and the options that are being presented and how they're being presented, is that fair to say?

Dmitry Grozoubski 8:46

I mean, absolutely. I think, because trade policy was out of the headlines for so so long, the public, I think, aren't as used to hearing about and aren't as used to detecting nonsense in it, as they are in things that have been a constant part of the conversation. So when, when you have someone say, we're going to raise you know, we're going to raise taxes on the Uber wealthy by 2% and that is going to fix all of the national problems. Voters are able to go, Well, I don't think that enough that alone would do it, and we're not expecting a hospital on every corner, whereas with a lot of trade policy, because there was this kind of bipartisan consensus around it, and because it's wonky and technical, there was, there's less of that kind of I don't I don't think that works that way at all. So I'm disappointed by I'm sort of that's why I got into it, that's why I gave it the title that I did, because I sense that increasingly, governments are facing massive problems. They are being asked to address massive challenges. The solutions to those challenges, which are overwhelmingly domestic, are too hard and. They're too hard to push through our political systems. They're too expensive. And so instead, they're increasingly reaching for this magic lever of saying, well, here's this amazing policy that will only hurt foreigners and will mean we don't have to make any hard choices at home. And for me, that's dangerous in that it gives people a really misleading window into what their leaders are going to do. So that's what that's where I come at it.

As to your earlier question, sort of the second part of that question about where I sort of why I say governments should wait for good reasons to intervene. I guess it's for the exact same reason. I think governments should generally ask themselves some hard questions before they restrict any kind of freedom. Fundamentally, my ability to buy things from people overseas is a freedom that I have, and sometimes there are good reasons to restrict a freedom. You know, I don't think I should be allowed to import weapons grade plutonium, and I don't think I should be able to, like personally fund the Ayatollah of Iran or to sell combat drones to the Russian Federation, absolutely. But at the same time, if a government's going to stop me from doing

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something I'd like to do, I'd like them to have a fairly compelling reason, and not simply to be doing it on the whim.

Karthik Sankaran 11:25

That's That sounds reasonable to me, but I we, I think we agree about a great many things already, so hopefully we'll get some something in the Q and A asking more questions about that. But I have, I just had an anecdote, and something that really struck me was, you know, what you mentioned was that there are so many problems that are so hard to fix that trade has that, my view is that trade has kind of become a scapegoat for, particularly in the United States, for things that are very hard to fix. And that's something, you know, we follow each other on social media. You've known me to go on about this at great length, I acknowledge him. But what was really funny was this past May, there was an op ed by the Treasury secretary in the Wall Street Journal where he talked about how Americans had, you know, had access to cheaper goods, but they faced immense difficulties, as housing, health health care and higher education had become increasingly expensive, which I think is true. You have charts that show that. And then he says, below, how do you heal a country ruptured by trade? And I'm looking at the list of things that are mentioned, healthcare, housing and higher education, and going, most of those are not really trade.

So that, you know, I think that absolutely confirms, confirms what, what you what you were saying about, in a potential displacement of, you know, angst and anxiety and discontent from one from one area to another. So I personally am on board with what you said. But I think one of the reasons here why it is somewhat easier to do this, there are obviously real consequences from trading you late. And you laid some of those out, even if they have may have been, you know, oversold or over hyped. But in other aspect of this is simply the nuts and bolts of the global trading system are so incredibly complicated, right? And, you know, I think we should spend some time talking about that. It's an alphabet soup. There are all these different words that are tossed around.

So I as a service to our audience, could you just kind of describe how we ended up with the system, with the organization of world trade the way, the way we did, as of, say, 2015 which I think of as kind of a dividing line between that bipartisan consensus about trade and where we are right now. So, you know, what is GAT, you know, what is GAT? What was it a response to? How did we get to the WTO, you know. And then these words are tossed around, most favored nation, you know, national treatment. There are all these very complicated terms floating around. So give us, give citizens just a way to engage with this that would be very helpful, I think with your expertise.

Dmitry Grozoubski 14:42

I will do my best, and I will try to make this as short and accessible as possible. If I start going down rabbit holes or get incredibly boring, just stand up and make a cup of tea, and that will be my clue that I've clearly lost. If I've lost you, I've definitely lost the audience. Is my thinking. So.

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Are really, really simplified. World War Two happens. Europe is in ruins. A lot of the world is in ruins. The threat of communism is freaking out the West, and there is a sense that the West needs to unlock a huge amount of private capital and investment in order to start rebuilding the world and to counter the Soviet Union. The problem is that investment and capital have recently lived through the Great Depression, where one of the defining features leading into the Great Depression, and during the Great Depression was that governments once unemployment started ticking up and growth started slowing down. Started bludgeoning one another with border measures. They basically tried to keep one another's products out of their markets on the assumption that, hey, if my if my consumers can't buy a t shirt, or, I guess in those times, a nice pair of pants from abroad, someone will have to build a factory in my own country to supply those pants, and that will create jobs, and that's how we're going to sort of re energize the economy.

So there was this kind of spiral of escalating tariffs and trade measures between major economies. Turned out that's not how anything works. And in fact, when you do that, no one can sell anything to anyone, including the inputs that people need to fuel their factories. So everyone gets poorer. So what you had investors saying at the time was like, Listen, guys, you're asking us as private capital to take our money and invest it in infrastructure, in factories that aren't going to pay dividends for 10 years. Maybe, you know that's when we're going to start making a profit, because these things take a while to build. But we're really nervous that the second the slightest thing goes wrong in the global economy, all of you guys are going to reach for those border measures again, and our factories aren't going to be able to get what they need, and they're not going to be able to sell what they make.

So how do you kind of deal with that? At the end of the day, every government controls what happens at its borders. You can you have something to you can charge whatever price you want. You can ban any product you want. There's no way to get around that. So the what they came up with was the idea of governments basically making promises to one another to place a cap on how much they would mess with foreign trade. They basically, we still want to mess with foreign trade, a bit like there are, we have certain sectors we really want to protect. We still want to do that. There are certain things we want to ban from abroad. We still want to do that. But a range of countries started negotiating on, saying, can we all come to an agreement on, like, a minimum level of non trade interference? And the US was instrumental in those efforts, especially initially, and it was trying to create something called the International Trade Organization, because at the time, the US was on a big multilateralism high. It was all about creating, like the UN and the Bretton Woods institutions. By the time they got done negotiating with this, the US had changed its mind and no longer wanted one of these, and the US Senate sank it so they harvested like the bits of this the US could live with, which were pretty narrow provisions around trading goods.

And that became the original GAT, the General Agreement on Tariffs and Trade. And what that basically said was among the signatories, this is a long list of every product in existence, and this is the maximum tariff we agree to charge on those products, on each of those products. And here are the additional rules we're going to have to make that work. So here are some rules that

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say if we want to raise one of those tariffs, we have to treat everyone the same. So what they were trying to avoid there was through a principle called most favored nation, what they were saying with two things. First, we want we agree. We can't get you to treat foreign producers the exact same way you treat domestic producers. But can we at least get you to agree that you're going to treat all foreign producers the same way? So this was the idea of letting the free market at least kind of determine where you get your imports from, even if sometimes you give your domestic guys a leg up.

And secondly, it was an attempt to take trade policy out of transactional diplomacy. Basically, if the only way I can, I can lower a tariff for you, is if I also lower it for everyone else I've signed this deal with, then I can't be constantly tweaking my tariffs as a basically like tool of day to day dip. Missing. So the idea was to provide long term certainty. This is the most favored nation principle that once we get to it, we can talk about it, but the US has basically now said doesn't work for them anymore.

Karthik Sankaran 20:16

In that explanation, there were a couple of extraordinary aha moments that you know when we I think I'd like to move on to the WTO here, but I'm sure, certainly in my mind and in the minds of much of the audience, not treating trade as an instrument of transactional diplomacy and as a and introducing certainty will, will will resonate. And I promise you, we will get to that. But just staying with this, with this question of architecture, we then got the got to the WTO in the mid 1990s which was kind of an up, an upgrade in certain ways of of get Yeah, well, it's also acquired this extraordinary reputation, I would argue, alongside Davos, which is happening right now, as as something quite sinister. So describe the WTO somewhat, and where you know there are myths about it, there are realities about it. So how should we think about those?

Dmitry Grozoubski 21:32

It's always so funny when people ascribe like sinister stuff to the WEF, because I live in Geneva, the weft space here, I know a lot of them, and it's like, your average WEF employee is basically a partnerships manager whose day to day struggle is getting a vice president at PepsiCo onto a panel in like mid May in Dubai to talk about plastics pollution. Like, that's what they spend their time doing it's not there is far less mustache twirling, sort of global domination schemes, and far more, like worried about someone's whiny VP, kind of having unrealistic demands about rarefied almonds. But on the WTO specifically, basically what happened was between 1947 which is when the gap entered into force. And in the subsequent decades, the gap grew as more members joined. But increasingly, by the time we got to the sort of the early 90s, there was a sense that trade had kind of outgrown it. There were a whole bunch of things that the gap didn't cover everything from trade and services to agriculture, wasn't in it. The US was flying around the world, kicking heads over intellectual property, and that was nowhere in the trade architecture. It had its own series of treaties that were much weaker, and so there was this sense that the existing architecture wasn't working, and what it needed was both an upgrade and a transformation.

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By bringing in these additional issues, you could reinvigorate trade and bring some of the big players back into the conversation, because they had started to sort of lose faith in it. It's important, I think, for your listeners, to understand that the US perception and the European perception is that the history of this architecture is that the way it was built was the US and Europe offering greater access to their market than they otherwise might. In order to have this infrastructure exist. And so a concurrent, sort of a constant backbeat throughout the last 60 and 70 years has been the sort of tension that you're sort of seeing now, where the US goes, well, hold on, is this still worth it for us? And that's what this sort of upgrade into the WTO wasn't part about. And like, how can we get them back into the room? How can we, how can we show them that? Like, okay, you're now no longer maybe a huge goods. Your focus might be on services or on IP. And look, this organization can do that too. We can expand the architecture and bring you on board.

Karthik Sankaran 24:24

And the services part is really, is really interesting, because you have a wonderful section in your book where you describe how much more complicated you know trade and services is, and I'd like to get to that. But going to the WTO itself, I think one of the central pieces of current arguments about trade is that Chinese entry into the WTO in 2001 basically broke the system that China has been has, has always been, gaming the system. It was a mistake to grant essentially permanent MFN status to China, in the, in the, in the back, at the back end of the administration. So given that you know, the story is basically of a process of opening towards the outside world that then brings in this giant that breaks the system. What do you think of that art, of that argument about the arc of how things proceeded?

Dmitry Grozoubski 25:29

I think it's a really complex conversation. One thing I always push to people, or sort of put to people who are who present the China shock, letting China into the system as this colossal mistake. Well, one question I always has is, well, what is, is your was, what is the alternative suggestion that we would have tariffed China forever, potentially kept, you know, 600 million more people trapped, trapped in poverty, in order to prolong our industrial sector for a few more, for a few more years before some combination of automation and competition from the rest of the world kind of led us to pretty much where we are now. So that's something I like to flag out at the start, because I think it's a very easy thing to say, of like, oh, wasn't a huge mistake to let China in. And I'm always curious what the counter argument is, or rather, what the what the alternative proposal is.

But let's sort of step back the the accusation against China and the tension you always have in trade policy generally, is that all trade policy requires making some distinctions between what represents a legitimate and an illegitimate source of advantage. Right? Like what we basically say in trade policy is that if you are overtly cheating, it's legitimate for me to keep you out of my market. So if you decide that you are just going to hand every potato that you send to my

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country, you're gonna you're gonna hand the exporter of that potato \$1 so that they can drop the price of their potatoes by 95 cents and crush me in my market, we say, well, that's obviously unfair. That's not That's not your farmers being better at growing potatoes. That's you putting your thumb on the scales. The challenge is, it's rarely that simple or that elegant. The Chinese government made absolutely massive national investments in a whole run, range of things, some of which are almost certainly cross the line into unfair competition, below rate loans, 50 year government procurement contracts, guaranteed safety nets for companies, massive orders or just transfers of state cash, many of which don't, massive investments in engineering education, for example, huge investments in infrastructure and all these kind of things combined to create a China which is hyper competitive in especially in certain forms of industrial and increasingly high tech manufacturing.

So the challenge has always been like, to what extent was the onus on Western policymakers to somehow counter that. And there are some who argue that, you know, free competition should have eliminated all of this, that a government choosing winners should not have worked. But clearly, the Chinese model works, at least pretty well, and that's led us to the conundrum we sort of have, we have today. The problem is that really at this point, Chinese manufacturing, and especially manufacturing in some key areas, whether they're intermediate goods, the products that go into products, primary chemicals, famously rarer for finding are so dominant that locking them out is virtually unthinkable. We are too reliant on them. Now, it should be said they are. They are as reliant on selling them to us as we are buying them. And I'm speaking globally, but it's still that is still a concern.

Karthik Sankaran 29:44

And, I mean, there are, you know, some of these mechanisms have been disabled right now. But could you describe what the I mean, there's, there's a kind of, there's a there's an architecture in the system. System first, and get now even more, even more in WTO about how you deal with these things there, you know, it's the dispute resolution architecture, so to speak. So, how does that work? And, or, you know, how, how has it worked? And specifically, was that? How did it work with regard to China, which seems to be, you know, the argument is that it didn't work at all. One of the arguments that didn't work at all, so, and that's why the system needs to be done away with. In the US in particular, has had strong views about this. Could you just walk us through a little bit of of of that side of the story, which is that, you know, were these, were there, was there recourse available? Was it used? Was it not enough? And what's the status of that recourse?

Dmitry Grozoubski 30:46

Now, sure. So let me begin by saying that there's a misconception that the dispute settlement in trade agreements, including the WTO, is either a court or a enforcement mechanism, like, if someone's breaking the rules, you have an umpire that can blow the whistle and stop them. It's never really what it is, though it's there's sometimes been attempts to use it that way, the like polite fiction, the meta way to think about dispute settlement is you and I both agree that the

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rules are good, and we both agree we should be following them if we have a disagreement about what following the rules means. In practice, dispute settlement offers us a legalistic sort of face, saving for everybody way to sort that out. So instead of going into bilateral diplomacy where someone has to, like, back down, where power comes into play, the idea is, you think you're doing the right thing, I think you're doing the wrong thing, we get a panel of legal nerds to look at what we promised one another, study what you're doing, and make a legal determination of going this is in breach of the rules, or it's not. This is the this is the way dispute settlement is supposed to work.

So one of the primary things about where we are now and why, for example, WTO dispute settlement is powerless in the face of what the US is doing or did on Liberation Day or is threatening to do over Greenland, is that dispute settlement doesn't work at all on parties who are like, no, no, I think the rules are dumb. Like, it's not that I'm not, it's not that I think I'm following the rules. And you think I'm not. It's that I know I'm not following the rules. I just don't think the rules have value to me anymore. Think that's that's sort of important to understand on the China thing, specifically, there's a couple of things to keep in mind. First, China is incredibly difficult to chow to challenge through the dispute settlement system, because of the nature of Chinese state capitalism. Let's say the US decided to roll out a subsidy program, for example. How would it do it? Generally speaking, you'd have Congress pass a bill, then it would hand that bill over to an agency in the executive that agency would publish reasonably transparently a set of criteria for who gets the subsidy, and then submit a public report to Congress saying, at the end of the year, we handed x billion to these guys, and here's why, and y billion to these guys, or million to these guys, and here's why.

That means, if I as Australia want to challenge that and say, Hey, some of those subsidies are WTO illegal. I can go on the congressional website, download the report and start from there. It is a clear act of the government, and I have a built in accounting trail and paper trail to track it. The Chinese government doesn't do subsidies that way, or doesn't exclusively do subsidies that way, like the hypothetical example is always something like an ostensibly Chinese bank gets a call to its board chairman from someone in the CCP who advises them that it would be in the interest of the bank and in the interest of the People's Republic of China that They extend a line of credit at a frankly suspiciously cheap interest rate to a new steel mill in Shandong prong. The next week, the bank issues that line of credit. There's no paper trail. A private bank made what looks like a private, commercial decision with another private actor. If you are looking externally at a Chinese system and trying to build a compelling case about government subsidies, it is very, very hard to do that. Looking at that the opacity of the Chinese system makes them incredibly difficult to work to prove. Work out what they're doing, to prove what they're doing.

And if you do win a dispute, which has happened a couple of times, the allegation has been well, what China does is say, Absolutely, that's on us. We've lost. We're going to get rid of that program, and the next day, they start a different program, which, if you want to challenge it will take you another four years and half the CIA running around talking to farmers, asking them how much they've received for their rice paddy in order to do and the WTO dispute settlement doesn't offer retroactive payment, so it's not like you get back pay when, when you win a case.

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So this has been the allegation against China and the US very much, in looking at the dispute settlement system, says we've got a system here that is going to keep ruling what we do to fight China illegal, but is kind of useless in ruling what they do illegal. Why would we consent to a system that makes us fight with one arm tied behind its back? And you know, you can come at that argument from different directions, but that is that is a large part of of their argument.

Karthik Sankaran 36:05

Thanks Dmitry, we have a we have we have a question from Valentina Scriabina, thank you very much for the discussion. I would like to ask Dimitri for his view on the extent to which trade agreements, in the context of the current challenges facing the WTO, can help shape the future global architecture for regulating international trade. And I want to mention here that this is actually kind of leading into what I was going to ask you anyway, which is clearly the WTO has kind of a global remit, but what we've also seen is literally this profusion of regional trade agreements, right? There's and these take different forms. There are free trade areas, there are customs unions, single markets, all of which you know means something to trade professionals, but probably have a eyes glazing over. Effect on, on, on, on, on, lay people. And so, you know, you know. So we have the European Union, usmca, TPP, that then got abandoned, cptpp, and how? So my kind of tagging on to Valentina this question, and perhaps before it, what are these other types of regional or work would plurilateral or multilateral agreements, and how do they differ? And is that where the future lies in the global trade architecture, if the WTO is kind of sidelined or hamstrung?

Dmitry Grozoubski 37:39

Let me kind of maybe begin with at the end there with Miss Scrivener's question, and then sort of move back into describing what these are, trade agreements, bilateral trade agreements, regional trade agreements, can substitute for a part of the global system, but not all of it. So what trade agreements are pretty good at is locking in maximum tariffs among the people who sign on to them. So Australia signs a deal with China, and that's going to be where we agree here is going to be our maximum tariffs on each other. That is pretty good, because that sort of goes that replaces what we've promised one another in the WTO. So that's good, that's fine, and they can certainly play that role. But there are certain things that are much, much harder to do in trade agreements.

So one obvious example of that is subsidies. It's really hard to do bilateral agreements on maximum subsidies, because subsidies are not are inherently untargeted. If I start handing out buckets of cash to my auto producers, that's not a problem for one specific country, that's kind of everyone's problem. I'm not giving them 50 bucks to sell to you. I'm giving them 50 bucks and then they sell to whoever they want at a cheaper price. So challenging global like disciplining global issues, is something that you really struggle to do with a bilateral deal, because they're not bilateral question. That's one area where they fall short. The second thing, and this is something that sort of maybe people in your audience know really well, but often surprises people governments are really bad at talking to each other, and they're especially bad at talking

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to each other about the 10,000 minor irritants that emerge in trade every year that are like well below ministerial level, some German company is exporting medical ear equipment to Pakistan and is finding itself stopped at the border because the Pakistani regulation on medical devices is written in a slightly awkward way that this particular shipment. Can't meet these kind of regulatory issues that require really technical dialog at a working level, that you really don't want to put on an agenda of a senior officials meeting or an ambassadorial meeting or something like that.

You really want nerds to get into a room and talk it out. Free trade agreements are really bad at creating those kind of structures. They don't they don't tend to have Secretariats. They don't tend to have like fixed delegates that spend all year hanging out with each other and talking about the stuff as their full time job. And let me tell you, people in ministries do not pick up the phone and call their counterparts and other ministries. It's just too sensitive. It's not done. So something that, something that the by trade agreements can't really do is is replace that, or at least they haven't so far. Which is why, by the way, most trade agreements do stuff like regulations, just by referencing the WTO agreements, the sort of chapters on sanitary regulations and technical regulations will have some additional commitments, but will mostly just say, hey, you know the stuff we promise to do in the WTO. We just can do that. We promise to keep doing that, and if there are issues, we'll sort them out at the WTO.

It's also why things like Dispute Settlement doesn't tend to get used in trade agreements. It gets used at the WTO because everyone knows how it works. There's a secretariat. There's buildings, if two countries with a trade agreement decide take a dispute against each other, literally, like, who's going to book the rooms? How does the procedure work? It sounds so dumb. It sounds like you hear that, and you're like, the world can't possibly work this way. It does like, genuinely, you see very little uptake of free trade agreements, dispute settlement, because the procedures aren't in place. The support stuff aren't in place. So they can replace it to an extent, but they but they can't replace it all the way. You're going to need something, or you're going to see more disruption to your question. Kartek and I'll be try to be as brief as possible. You can think of trade agreements in two buckets, depending on what they are trying to do. Bucket one is what we tend to call bilateral trade agreements. They tend to be where you and I try to make it easier to sell stuff to one another. There's stuff I'd like to sell to you, there's stuff you'd like to sell to me. We have a negotiation where we try to lower those barriers. That's a traditional Free Trade Agreement. Korus, I don't know, Australia, China, you name it.

The second bucket is where we try to make make it easier, to make things together. If you think about like, what makes the US a such a powerful economic country, one of the things is its internal diversity. You can combine, like New York capital, with minerals from the Rocky Mountains, manufacture the whole thing in Detroit with design from San Francisco. The internal diversity of the US makes it more powerful than any one of those states could be on their own. Regional trade agreements are an attempt to do the same thing between countries. So you try to eliminate barriers to moving good bureaucratic and bureaucratic barriers and costs to moving stuff around within a country, within a region. Sorry, in order to make it easier to collaboratively produce goods that would be more competitive globally and regionally than you could do than

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any one country could do by itself. So those are the two kind of buckets, two ways of thinking about it. A really good question with an FDA is always like, is the goal here to sell them more stuff, or is the goal here to build supply chains that run between us so we can all make a cooler thing collectively, that help?

Karthik Sankaran 43:57

Yeah, absolutely. And I guess and the EU is probably the furthest along that path?

Dmitry Grozoubinski 44:04

Miles, miles ahead. Like there's nothing that even comes remotely close. There are ways in which the European Union is more integrated, in terms of it is easier to do trade across EU states than it is between states in the US, not universally, but like it's and that has required building a vast architecture of dispute resolution and sort of legal frameworks in order to just make all of that.

Karthik Sankaran 44:33

We have a question here from Gary Cosette, which is something that you know comes up a lot, and I think it's, it's a question of labor rights. Why are labor rights so weak in trade agreements? There is, there's a bit in USMCA that you could probably talk about that that tries to do this, but it seems that fundamental labor rights are largely ignored in trade agreements. Is that correct, or it's what extent is that true? Do you think debates. Right?

Dmitry Grozoubinski 45:00

So it's definitely been, been historically true. The labor rights chapters of free trade agreements have tended to basically say, at most, you are not allowed to not enforce your own labor rights for factories that export to me in order to give them a leg up. And they've sort of that's what it used to do on the environment as well, to basically be like, You can't let a factory break your laws and dump effluent into the river just to give it a leg up in my export market, if that's illegal in your country, like you have to at least enforce your own rules. The reasons why it's it's weak in trade agreements. There are different takes on this, depending on how sort of how you approach it. One is exactly the reason that you think, which is that there was a sense that a lot of the opportunities in trade agreements would come from leveraging differentials in cost of living.

A second is it's just very, very complicated to do anything in a trade agreement that you sign is basically me making a binding international law promise to you about how I am going to govern on things like labor rights, which tend to be quite sensitive, governments have been pretty reluctant to make those kind of promises because they want the freedom. Third, I think developing countries, as on environment, have been justifiably suspicious that provisions on Environment and Labor are just a backdoor form of protectionism, basically that Sweden doesn't

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particularly want to compete with anyone, and what they would love to do is to make a rule that in order to sell anything to the Swedes, you have to have a factory that pays as much as Swedes Swedish workers get paid, Looks like a Swedish factory and has all of the latest environmental whiz bangs and gizmos that a high capital society like Sweden can afford and other countries may not be able.

So a lot of the pushback came from actually developing countries that were saying that, like one advantage we genuinely do have is the cost of living here is much lower, and so we don't want provisions in here that say you get to you get to lock us out if you don't think we're paying our workers enough, or, you know, you don't, you don't think our factories has enough, has good enough air conditioning, well, a private actor can make that determination, but you as A government don't get to tell us that. So that's been the historic trend we are, as you mentioned in USMCA, we're seeing that now slowly beginning to reverse as governments generally take a much sharper interest in how things are made abroad.

Karthik Sankaran 47:58

And I mean, this gets to, you know, you raised, you know, a couple of big questions that, and that's a, you know, role of Trade and Development. You know, there's, there are concerns that what's happening is a pushback against against development possibilities. And one of the, and you know, one of the arguments that I've heard, and I actually honestly subscribe to myself, is that part of the issue here is, at least a portion of the China shock is not being felt by solely by the developed world, but also by the developing world, because China is a superpower, not just at manufacturing EVs, and, you know, very complex stuff, but also continues to, you know, produce textiles and a lot of things that you know. So it's kind of unusual from the point of view of as many people.

Arvind Subramanian, you know, a lot of people talk about this China simply not vacating portions of the global manufacturing ecosystem fast enough. So that's, that's, that's, that's one issue. The other is, a related one is climate change and the argument that global trade has contributed to global warming, you have a pushback in there. I think it'd be good to share that with our audience. And finally, the most recent question about the last question from Alessandro Maiter about the role of global trade architecture in protecting foreign investors in investor disputes, whether it's about investment, whether it's about intellectual property and so on so. And I think all of these are concerns of. Well, in the global south in particular, which is, you know, my program, so a lot of things, but development, climate change and intellectual property, investor disputes.

Dmitry Grozoubski 50:15

There's a lot that you I will, I will inevitably forget half of your question about time I answer it. Maybe. Let me start with with alessandro's question, because I think it's really interesting, and to sort of split that up, go back to answer, so I'll make sure I've got in front of me, split that up into into two things. So first there is the specific issue of investor state dispute settlement, which is a

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legacy of decolonization, where basically what it allows private, private capital holders to do is to directly sue, directly sue governments that they feel have expropriated their investments. This is a decolonial column. This is a legacy of colonialism, or decolonialism, where basically as colonial powers were withdrawing or getting thrown out of certain jurisdictions, big companies were worried that they couldn't trust the local legislature, the local judiciary, to protect their assets in those countries from just being nationalized without compensation.

And so some would argue negotiated, others would argue, kind of bullied developing countries into signing these agreements, which basically allow them, in that instance, to sue internationally, rather than simply pursuing redress through a domestic legal system they didn't trust. This is, I mean, I talk about this in the book, and I want to sort of go over it. It's a complicated issue. It's not really clear who even wants these too much anymore. Most of the use of this have weirdly, been European companies suing European states over stuff like nuclear power cancelation. So it's just, it's a complicated issue.

But I think that's worth separating from the broader question Alessandro asks about, like, wasn't this about the interest of capital to move production to places that are cheaper and then export to, I guess, where they were before? And the answer is, yeah, in part, but that kind of was what was supposed to happen. You know, if we're talking about factors of production, labor is a factor of production. Labor costs are a factor of production. They're a legitimate factor of production. And so from the developing country point of view, they were like, we really want this capital to flow in. So from the developing country point of view, they sort of say, well, this kind of worked exactly the way we hoped, which is that by not taxing stuff that goes out, we were able to leverage our sort of factors of production, including cheaper labor, to sell back to you.

Where it all gets a lot more complicated and a lot more broad is once you go away from just the fact that, like, rents a lot cheaper in Bangladesh than it is in Detroit. And once you get into things like regulation or carbon taxes, what is and isn't a legitimate form of comparative advantage, what's a legitimate difference in factor of production becomes, I think, a lot more hotly contested. But look, you're, you're, you're absolutely right. Like a big driving factor of this was all trade agreements really exist in order to give investors and supply chain managers certainty to make long term investments in places that are more in ways that would be more risky if policy could change every day.

So you're right about the actors, but I think there's a there's a broader debate about, like, what's the lesser evil here? Should we be preventing a steel mill in China in order to keep a steel mill in Detroit open longer, if that steel mill in China is going to sell us cheap steel that makes everything in the country cheaper and perhaps generates more employment, there's a really legitimate debate to be had about that, and I don't think there's any one wrong right answer.

Karthik Sankaran 54:19

Yeah, on the climate part. I mean, you know, one of the, one of the questions that I've had is, you know, they're things like putting tariffs on, or the or the carbon border adjustment

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mechanism, which is, I guess, the wonky thing, but essentially, kind of tariffing Dirty, dirty steel. And my response to that has been, yes, I can see the point of that. But essentially, the structure of economies means that it might be possible for the United States, say. Have clean steel plants. So America's productive factors are carbon clean, but a lot of our carbon expenditure really comes from consumption. So, you know, my I have a nasty sense that telling someone that we are going to tariff steel from India that has per capita emissions that are a fraction of what US fraction US emissions are. But you still get to ride your four to 150 back and forth from the plant, which is kind of a consumption it's on the consumption side, feels a little problematic. And so this sense of you know, does that? Does that make sense to you Dmitry?

Dmitry Grozoubski 55:44

Yeah, absolutely, and this is like a really, a really big tension in what you do about carbon emissions, like differences, like arbitrage on regulations, is about whether you treat it at a per product level or a nationwide level. So if you, if you had an island that generates almost no emissions, but has a really dirty steel plan on it, like the average emission is what, or even total emissions are really, really low per capita, but it has a hugely dirty steel mill, there's an argument to say, well, listen, the whole Island's fine, like, Why are you messing with them? This Island's not the problem. At the same time, the steel guys would go, they are getting an advantage from producing in a dirtier way, which is cheaper, and that's discouraging me to produce in cleaner ways. So we should be having this conversation at a per product level, right? Because fundamentally, it doesn't matter to me what the whole Island's doing. Their steel is dirty. That makes it cheaper. That's an unfair advantage that they have.

And you can argue that, I think, in both ways, pretty compellingly, where most governments are settling is on a product by product kind of approach. We look at how much carbon went into making your car, not what is the carbon footprint of the country where it was made that seems to be where it's going. And there's an equity case to be made for that, and one to be made, one to be made against it. I think that the whole issue with like carbon taxation at the border, or any kind of process taxation at the border, is that, in theory, it makes perfect sense you should not be allowed to give your producers an advantage over mine by being environmentally negligent. And it is feels legitimate to say we're not going to fine you for that, we're just going to work out how much of an advantage that is. And when you try to sell me stuff, we're going to tax you at the border to put you on a level playing field with my guys.

Right? That in theory, if we had perfect implementation, makes perfect sense. The challenge is it's incredibly difficult to do that in practice, trying to work out exactly how much carbon tax you should have paid on your steel mill in a distant jurisdiction, to the satisfaction of my officials, is hard to begin with, and there are a lot of incentives, frankly, for My industry to lobby my government to make those requirements as painful as possible in ways that go beyond just rebalancing arbitrage and into protectionism. So a lot of this like makes perfect sense in theory, but the we have to keep coming back to how it's actually being rolled out, and making sure that what we're actually seeing is creating fairness and not just trying to shield inefficient industries from all competition that they just don't particularly.

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Karthik Sankaran 58:52

We're now getting close to the end, and we don't have much Time. But you know, obviously what we have seen over the last year, and it's escalated in many respects, is the commingling of trade with all kinds of other issues, particularly security. And we had a response from Mark Carney yesterday. So this is the speed dating round Dmitry, what do you think of all this in two minutes?

Dmitry Grozoubski 59:26

Okay, so very, very quickly. First of all, I think the US is discovering the limits of what it can achieve through tariff policy. It's obviously not zero, but there are clearly limits to what you can extract from other parties by threatening to tax your citizens for buying their stuff. Anytime you try to do that, what you're basically saying is, hey, exporters in that country, pick a fight with everyone else and win it for me. So like and extract a big concession. Now what the Trump administration has found is they can get some concessions. Reasons, including non retaliation from everybody but China, but it is much harder to get something like Greenland out of it. So that is one. Second thing is that the chance for the Trump administration, which was aimed simultaneously at revenue raising, rebuilding manufacturing, divesting from China and gaining political capital, a lot of those things are contradictory. If you're raising a ton of money from tariffs, that means lots of people are exporting stuff to you that you're taxing. So that probably means no one's going to build a factory. If you've replaced all imports with new factories, then you're not going to raise a lot of revenue.

So it's a sign that even on stuff like this, you really have to think it through. And then finally, talking to any business and any kind of investor, which, as I've said, is fundamentally what a lot of this is about. It's the unpredictability is what is currently doing the most damage. If the goal is to build a whole bunch of new factories, the best thing the Trump administration could do is give companies long term certainty about what the US tariff regime will look like 15 years from now, when those factories will pay dividends. But that is at odds with the way that they prefer to wield tariff policy, and that is why you are not, contrary to what the President said in Dallas today, actually seeing a huge flood of manufacturing investment into the US, because everyone is just sitting on their money, worried about what is going to come.

And fundamentally, I think the system which provided those promises that countries have made to each other, which provided that certainty benefited everybody, including the United States. And any attempt to really achieve like America first objectives and the lofty objectives of the Trump administration in the future will probably mean needing to calm down a bit and enter into some long term predictability, generating commitments, or at least send some, send some of those signals. And we, I think sometimes I think the US might be slowly learning that lesson, as it sort of rolls back tariffs and looks in other directions. And then weeks like this week, you think maybe, maybe that was a dream.

Karthik Sankaran 1:02:24

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Oh, that's that seems to be a good place to to wrap up here. But obviously this is going to be a live topic, and I would like to thank you so much Dimitri, for giving us, for being here, for giving us and our audience just the tools to think through this, think through some of this stuff. So thanks again to Dimitri gobinski, author of why visions lie about trade. And thank you all for thank you for joining us on this, on this event. I hope you enjoyed it. Please join us for our next webinar on January 27 which is also tackles a very live topic, the crisis in transatlantic relations. I know that many of you will find it of interest, and I hope you can join us. I also wanted to mention that we do a lot of this stuff. We do webinars, we do events, we write briefs, so please see what we do at our website. Quincy inst.org, that's Q, U, I n, C, y, I N, S, t.org, sign up for our mailing list, and you will get the info, all the information about our events and activities, and hope you could become part of our community. Thank you once again for joining us, and I hope to see you again at future events. Thank you. Thank you so much

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