BI-ANNUAL CONFERENCE | THE NEW US TRADE TARIFFS:

WHAT ARE THE CONSEQUENCES? HOW WILL TRADE BE RESTRUCTURED?

TRANSCRIPTION

00:00:00 – Emmanuel Laborde

Hello everyone and thank you for joining us live this Tuesday afternoon for BNP Paribas' latest half-yearly economic conference. I am delighted to welcome you for just over an hour, which we will spend together discussing the most significant economic events of the first half of 2005. That is the purpose of this conference. As you may know, this event has been very successful, and I would like to thank you for that. Perhaps I should rephrase that slightly, as I think I said exactly the same thing in December 2024, so I will update it. This event is very successful, as the last conference attracted over 10,000 viewers, which is an absolutely remarkable achievement for such a specialised macroeconomic event.

So, a big thank you to all of you, both BNP Paribas employees and customers, for joining us in such large numbers, both live and via replay, and for spreading the word, which allows so many of us to share this moment and give resonance to the work of the teams and economists at BNP Paribas.

00:01:05 – Emmanuel Laborde

Since there are so many of you, the disclaimer is more important than ever.

This is a very important reminder: in accordance with the Markets in Financial Instruments Directive (MiFID II), we would like to point out that the various presentations you are about to hear, and the comments made during this conference do not constitute investment advice. So, on today's agenda, we have a topic that is once again very much in the news in mid-2025.

The new US tariffs.

What consequences will there be, in the plural of course, since there will be many depending on the different regions of the world and the different economies? How will trade be reconfigured? We will look at this in three main sections.

The first will directly concern the United States, which is undoubtedly the country most affected by these tariffs.

The second will focus on Europe and the expected remobilisation.

That is the title that has been chosen, and you will see that it is entirely appropriate. And then the third section will allow us to see what the consequences and opportunities will be for emerging countries. And of course, don't forget that for those of you who are following us live this Tuesday afternoon, you have the opportunity to interact with the economists, which is one of the added values of this event, by asking your questions at any time.

As you know, streaming on the Internet means that there is a few seconds' delay in the signal reaching us, and it takes us a little time to receive your questions. So please don't hesitate to ask your questions as they come to you. The moderators will pass them on to us at the end of each segment and we will be happy to answer them. Now you know how it works. Thank you for joining us this afternoon. We'll start with a jingle and then welcome BNP Paribas' Chief Economist, Isabelle Mateos Y Lago. Isabelle, hello.

00:03:09 – Isabelle Mateos Y Lago

Hello Emmanuel.

00:03:10 - Emmanuel Laborde

And thank you for opening this half-yearly conference once again, as you do every six months.

00:03:14 - Isabelle Mateos Y Lago

Of course.

00:03:15 - Emmanuel Laborde

Six months ago, one topic naturally came to the fore.

It was the arrival in power of Donald Trump, beginning his second term as President of the United States. We are not here to discuss politics, but to comment on the economic consequences of political actions. Let's start by taking a look at Trump, who is at the heart of the topics we're going to discuss today.

This has been a rather unusual term of office.

I'm choosing my words carefully. Would you say that it's very different from what we saw with Trump 1.0 back then?

00:03:46 - Isabelle Mateos Y Lago

There are some similarities, and I think people are finding that pleasant or unpleasant, particularly his style and the slightly theatrical nature of his announcements. But fundamentally, I think we really need to realise that we are dealing with an economic, international and domestic policy agenda that is fundamentally radical and is moving at a much faster pace than we saw during the first term.

I think we should expect the next four years to be much more impactful and transformative for the entire world than President Trump's first term.

00:04:25 - Emmanuel Laborde

It's true that just following him, those first weeks and months were already almost breathless. It was an absolutely frenetic pace. You have chosen to focus this half-yearly conference mainly on tariffs and their consequences, which will be absolutely global. Why this focus? And can we put this into context with the rest of these political decisions?

00:04:43 - Isabelle Mateos Y Lago

Yes, of course. I would say that the main reason is that we only have an hour. But also, because this is the part of President Trump's agenda that has the greatest economic impact on the rest of the world. But as you say, it's very important to put it in context and because it's ultimately only one leg of the tripod, I would say, of the upheaval of the international order that President Trump is implementing.

The other two legs are, on the one hand, geopolitics, where we are seeing a questioning of the military alliances we have known for 70 years. The extent of this remains to be seen, but it is nevertheless a questioning. And then, the third leg is a transformation of the functioning of American democracy with a very brutal strengthening of the authority of the President of the Republic in particular, with the exception of all the other countervailing powers, which are struggling to adapt and resist. So, we are witnessing this game, and all of this will naturally have very important consequences that we will be able to follow over the next four years.

00:05:46 - Emmanuel Laborde

Indeed, we will be here every six months to take stock of the situation. There are three chapters in this conference: the United States, Europe and emerging markets. These are very different regions of the world with very different economies and characteristics, but they will obviously be impacted by tariffs. Can you give us an update on the situation as it stands? Over the last six months, there have been some very strong announcements, withdrawals, backtracking and negotiations. Where do we stand today, in mid-2025, in terms of what has more or less stabilised and what we have some visibility on?

00:06:20 - Isabelle Mateos Y Lago

In your list of surprises, there have also been court rulings that have overturned certain decisions and been upheld and appeals that have temporarily confirmed the administration's decisions. So yes, it's all a bit complicated, but ultimately, I think we're starting to see a fairly clear path forward.

We are three weeks away from the expiry of the 90-day truce that allowed all so-called reciprocal tariffs to be reduced to 10% to enable negotiations to take place. I think the signals sent by the Trump administration are clear that it wants to reach negotiated tariffs with almost all of its trading partners. So, our central scenario is that we will end up with a sustainable average external tariff on US imports of around 12, 13, or between 10 and 15%, let's say. This is much better than the 30% reached at the end of April, at the worst point of the trade war between the United States and China, but it is much higher than the 2.5% that prevailed at the beginning of the year.

And this average tariff will be underpinned by tariffs that vary slightly from one country to another, but ultimately not by much, because, broadly speaking, China has a much higher tariff than the others, and then it will ultimately vary less from one country to another. But sectoral tariffs, which already exist on cars, steel and aluminium and are announced as imminent on pharmaceuticals and semiconductors, will remain in place or at likely high levels, except perhaps for privileged trading partners, for reasons of economic sovereignty and to meet President Trump's reindustrialisation objective. So, there you have it. As for the details, we don't have a crystal ball, but I think we should expect to remain at a very high average tariff level compared to what prevailed at the beginning of the year, simply because the Trump administration needs revenue to finance the tax cut agenda that the president has promised.

00:08:33 - Emmanuel Laborde

Indeed, we will follow this and take stock of the situation today. You said we only have an hour, so we will be quick and efficient. We'll start with the first table, and we'll meet again at the end for a summary and conclusion, and a look to the future. We begin our first table on the United States with our first three economists, Anis Bensaidani, Céline Choulet and Pascal Devaux, whom I will join right away after the jingle. Céline, Anis, Pascal, hello to all three of you.

00:09:48 - Anis Bensaidani, Céline Choulet, Pascal Devaux

Hello Emmanuel.

00:09:49 - Emmanuel Laborde

It's a real pleasure to be with you this afternoon, in the heat of mid-June.

Anis let's start with you.

Since his inauguration six months ago, President Trump has been making theatrical announcements. We have reached a point in international politics that is unfamiliar to us, with his announcements sometimes staged in a rather grandiose manner, followed by withdrawals and negotiations, which are quite unsettling for economic observers such as ourselves and have even been quite disconcerting at times for the United States' economic partners, which is understandable. We are now six months on from the first announcements. Can we take stock of the situation? As an economist, how do you see the situation in the United States, with signs of weakness beginning to emerge?

00:10:37 – Anis Bensaidani:

Of course.

What is notable about the current slowdown in the US economy is that it is self-inflicted. In the first quarter, growth was negative due to a surge in imports aimed at staying ahead of the additional tariffs. This was the first contraction in GDP in three years and follows a strong end to 2024. Growth is expected to recover thereafter, but on average it will be significantly lower than in 2023-2024.

This is directly linked to the double blow dealt to the economy by Donald Trump. On the one hand, there is the tariff shock, of course, but there is also the shock of uncertainty linked to these unstable and even erratic policies.

00:11:20 – Emmanuel Laborde

So, there is a lot of instability, that's true. There have been some very strong announcements and some backtracking. Despite everything, between the theatrics, the grandstanding announcements and the reality, can we not say, six months on, that it was more fear than harm for the United States?

00:11:36 – Anis Bensaidani

Well, not really, for at least two reasons. The first is that Trump has backtracked somewhat on the scale of these tariffs plans, not on the idea itself. So, these tariffs will become the new norm, with exemptions for deals, but also with national and/or sectoral targeting.

Ultimately, the average effective tariff rate on imports of goods into the United States will in all likelihood be significantly higher than it was before 2025. We estimate this to be 5 or 6 times higher. This is likely to have an upward impact on inflation, and therefore potentially negative on household purchasing power and demand. Initially, the United States seemed to be heading towards the much-desired soft-landing scenario. We anticipate a re-acceleration of inflation at least until mid-2026.

Emmanuel Laborde

You mentioned two reasons. What's the second one?

00:12:31 – Anis Bensaidani

Yes, exactly.

The second reason, in fact, has to do with this climate of structural uncertainty and even a loss of confidence in the institutional stability of the United States. In practice, this can have a negative impact on hiring and investment decisions. And precisely because I mention this structural uncertainty, it would be naive at best to completely rule out, say, announcements or attempts to implement new policies that are destabilising or at least unorthodox.

00:13:00 – Emmanuel Laborde

How can we explain such a discrepancy? Because it's really very unusual, we're all a little taken aback, there's a lot of noise, and then we come back to things that are almost normal or that are delayed. What interpretation do you have of this within economic studies?

00:13:15 – Anis Bensaidani

Well, we identify three dimensions. The first has to do with the institutional legal framework in the United States, which is resisting Trump's attacks as best it can. We can cite the ongoing legal battle over national tariffs, but also the damp squib that was the DOGE, for example. The DOGE was supposed to slash public spending, but in the end, it was nothing more than a major destabilisation and a reminder, perhaps necessary in the end, of the inevitable role of Congress on budgetary issues. The second factor is what can be considered a misjudgement of the current balance of power on the world stage. Trump's vision of the world could have been summed up as "I decide, they execute ". However, in practice at least, a more nuanced reality has emerged for the US president, with partners and rivals who are ultimately less eager to strike deals and less inclined to accept all the conditions imposed than Trump would have hoped. The final factor is the reaction of the markets, particularly the bond markets.

00:14:12 – Emmanuel Laborde

It's true that a lot has happened on the markets, with sharp falls in the equity markets since April, followed by very strong tension on the bond markets. We get the impression that Trump has been sensitive to this, as it would have been the decisive blow to the first part of his term in office.

Céline, when we talk about Treasuries, we turn to you. With these various episodes, have they lost some of their lustre and their status as a traditional safe haven?

00:14:37 – Céline Choulet

No, it would be an exaggeration to say that. The Treasury market remains the most liquid and deepest market in the world. That said, the events of April reminded us, and perhaps the US administration was not entirely prepared for this, that for various reasons this market had become more vulnerable to episodes of tension, and that Treasuries no longer offered quite the same security and liquidity in the event of a shock.

00:15:00 – Emmanuel Laborde

So, various reasons, you say. Which ones?

00:15:02 – Céline Choulet

There are three main ones. The first is the colossal size of the US federal debt. The second is banking regulation, which has reduced the incentive and ability of Treasury specialists, known as Primary Dealers, to act as intermediaries in the markets and has encouraged the emergence of non-bank intermediaries with very little tolerance for stress.

And the third reason is the growing weight among US federal debt holders of more short-term investors such as hedge funds, which do not favour Treasuries for their safe-haven status but to make bets and play the leverage effect.

However, in the event of a shock, these players may very abruptly sell off their positions to meet margin calls, because financing conditions are tightening or simply to revise their bets. And in such situations, Treasury yields can indeed become very volatile.

00:15:59 – Emmanuel Laborde

So, we understand that this market has some intrinsic weaknesses, and we can imagine that the episode we have just experienced, with the trade war, the grandiose announcements, etc., and all this potential instability, is everything that investors dislike, we are all in agreement on that, right? All this potential instability is everything that investors don't like, we agree?

00:16:12 – Céline Choulet

Yes, absolutely, it reduces the attractiveness of Treasuries and damages investor confidence, which is essential. It should be remembered that the status of Treasuries as a safe haven has been a tremendous catalyst for the development of US capital markets. This is a key advantage for the financing of the US economy. But to preserve it, the US administration needs to allay concerns about its foreign policy and the stability of the Treasury market. And the first concern is the trajectory of public debt.

00:16:46 – Emmanuel Laborde

Well, that's a topic that can't be avoided at the moment. US public debt is a recurring theme; it comes up every six or twelve months. I'll quote Donald Trump, who proposed a budget bill saying, "One Big Beautiful Bill “. You've probably heard that phrase. What can we expect from this big, beautiful bill promised by Trump?

00:17:06 – Anis Bensaidani

Well, first of all, let's note that the so-called 'big, beautiful bill” essentially perpetuates the current situation by extending the tax cuts already decided by Trump in 2017. In this sense, the effects on demand will be limited, especially since it is tariffs that are associated with a reduction in household disposable income that must compensate for the loss of tax revenue associated with the One, Big, Beautiful Act. For the rest, the administration's fiscal plans do not address the issue of the sustainability of US public finances. Over the next decade, the deficit is expected to remain at levels unseen outside times of war or recession, at around 6% of GDP, which will contribute to the debt-to-GDP ratio rising to and beyond its historic high. The concrete implications of this are the risk of bond market pressure and severely limited room for manoeuvre in the event of a new recession.

00:18:01 – Emmanuel Laborde

So, there is another issue that has come back to the forefront, particularly in April, when there was some turmoil in the stock and bond markets, and that is the likely easing of leverage restrictions on major US banks.

Could this be a way of repairing the damage that has been done and starting to restore confidence in Treasuries?

00:18:22 – Céline Choulet

Yes, absolutely. In fact, the challenge will be to enable primary dealers, most of which are subsidiaries of very large banks, to fulfil their role as intermediaries in the Treasury market and, as you say, restore Treasuries' status as a safe haven.

To do this, primary dealers must be able to absorb the securities that investors wish to offload urgently and continue to provide all the liquidity needed to maintain positions.

Emmanuel Laborde

And the more debt increases, which is happening almost every hour, every minute, every second – there's even a counter in New York that shows the amount of debt – the more balance sheet space is needed for intermediaries.

00:19:01 – Céline Choulet

Yes, absolutely.

And so, the problem is that, for some very large American banks, the leverage standard is about to become more restrictive than the risk-weighted capital requirement and therefore more decisive in portfolio choices. Without an adjustment to the standard, some banks will soon be forced to raise additional capital to continue to intermediate the market. And there is a risk that they will opt instead for riskier activities, which are certainly more costly in terms of capital, but also more profitable.

So, the idea is to recalibrate the leverage standard so that it complements the risk-weighted requirement and plays its role as a safety net without penalising intermediation in the Treasury market. –

Emmanuel Laborde

So, there are the banks in the United States, and then there is the bank that cannot be ignored, namely the Fed, of course, which we have to talk about. What could the Fed's monetary policy be in the coming quarters? Is there a clear trend emerging in the current storm?

00:19:57 – Anis Bensaidani

Of course, our Fed scenario since Trump's presidential victory has been and remains that the FOMC will not lower the target rate throughout 2025. As I mentioned earlier, we expect inflation to rise in response to the tariffs, as these are equivalent to both a negative supply shock and an increase in production costs. And economic literature, as well as Trump's 1 experience, is quite clear that it is the consumer who ultimately bears the cost of tariffs. The challenge for the Fed now is to prevent this rise in inflation, which is almost unanimously expected, even within the Trump administration, from turning into persistent inflation.

To this end, it is essential that it keeps inflation expectations firmly anchored in the markets by demonstrating its commitment to the price component of its dual mandate, because otherwise the proper conduct of monetary policy would be jeopardised.

00:20:52 – Emmanuel Laborde

We are obliged to say a few words, which is quite unusual, about the personal relationship between President Trump and Jerome Powell, who heads the Fed. It is rare to talk about it, but the disagreements have been so strong that they cannot be ignored.

00:21:05 – Anis Bensaidani

Of course, Trump would have liked to dismiss Powell or at least would have liked to be able to force him to lower interest rates, but in the end, he was prevented from doing so, both by the legal framework and by the markets, which brings us back to the idea of Trump being tested by reality.

As for the rest, when it comes to Powell's Fed, some might consider that it has emerged stronger from this episode, insofar as it has demonstrated its independence and commitment to its dual mandate. That said, Powell's succession will begin very soon, and with it, the almost existential challenges that lie ahead for the Fed and its independence.

00:21:41 – Emmanuel Laborde

This will need to be monitored very closely, as a lot is going to happen. We cannot talk about the United States without mentioning the oil sector. So, I turn to you, Pascal. This sector is more complex than it appears, because there are several factors at play. First, there is the American way of life. American voters want cheap energy because their lifestyle is very energy intensive. We're getting close to the driving season, when people will take their cars and travel thousands of kilometers to go on holiday. And then there's the fact that the United States is an oil producer, so it needs oil to be expensive enough to be profitable on US soil, at least. It's a balancing act. Before we get to where we are today, what were Trump's promises on this issue, which is unavoidable in presidential elections?

Pascal Devaux:

As you said, there was a rather short-term objective, which was to lower oil prices to improve the purchasing power of consumers and therefore of American voters. And there was a more structural objective, which was to maintain the United States' dominance of the global hydrocarbon market.

It's important to remember that the United States is the world's largest oil producer and the world's largest exporter of liquefied natural gas.

00:22:52 – Emmanuel Laborde

Let me refresh my memory on the prices. They were around $80 at the beginning of the year when Trump came to power. They fell, but you can confirm this, to around $65.

00:23:01 – Pascal Devaux

Even lower, a little below $60. Below that, yes.

00:23:05 – Emmanuel Laborde

Political situation: we are recording on 17 June. The global situation is a little tense. It's gone back up and is slightly above $75 today, I think. Pascal Devaux Yes, that's right. Emmanuel Laborde The average target for the year, if all goes well, would be $70. Would it be a risk if we stayed at $70 for a long time for American producers?

00:23:25 – Pascal Devaux

Well, $70, no, but we're not far from that risk precisely because you have to understand that shale oil producers, and shale oil accounts for about two-thirds of total US production, so these shale oil producers need a barrel at $65 to be able to continue investing.

And we also know that the shale oil industry needs a steady flow of investment to maintain production. What we saw in May, when oil was trading at around $60, was that a number of US producers announced a reduction in their short-term investments, and we also saw that the number of active drilling rigs in the United States had started to decline, albeit slightly, but it had nevertheless started to decline.

So, we need to bear in mind that this is a very flexible system, and this downward trend could also reverse quite quickly, particularly if geopolitical tensions in the Middle East keep the price per barrel above the break-even price for US producers.

Emmanuel Laborde

Indeed, shale oil production is very responsive; wells can be shut down in a matter of days and reopened fairly quickly.

00:24:32 – Pascal Devaux

Well, maybe not in a matter of days, but in a matter of months, they can react fairly quickly.

00:24:36 – Emmanuel Laborde

Faster than when offshore platforms are installed at sea. So, if the decline in investment continues, could this have an impact on the United States' global dominance in the oil sector?

00:24:48 – Pascal Devaux

Not for the moment. Even if we expect US oil production to remain stable this year and in 2026, it is expected to decline slightly, but only by a few per cent, so it's not a significant amount. It's important to note that total US oil production is 30% higher than that of the world's second and third largest producers, Saudi Arabia and Russia. Nevertheless, we can expect the United States to lose market share in the global oil market in the coming quarters, given the very aggressive policy of OPEC+ members to increase their production.

Another factor to mention is that even this slight drop in oil production could also cause a slight drop in gas production and therefore LNG exports from the United States, given that a certain proportion of gas production is linked to oil production.

00:25:46 – Emmanuel Laborde

Thank you all three. We welcome questions from our many followers, as we know there are always lots of you out there. We'll stay with you, Pascal. Could a decline in US oil production have an impact on European gas supplies and, consequently, on prices? It's true that a lot of the gas that arrives in Europe and France comes from the United States, by LNG tanker.

00:26:08 – Pascal Devaux

Yes, it's true that the United States has recently become the leading supplier of liquefied natural gas to the European continent. So, 70% of European imports come from the United States, and liquefied natural gas accounts for about 30% of total gas imports, because the rest of gas imports comes through pipelines and not LNG tankers.

So, we really need to distinguish between a short-term effect and a medium-term effect. In the short term, there is a volume effect and a price effect. In terms of volume, the effect should be fairly limited because US gas production associated with oil production is around 15%.

So, if we expect a very slight decline in US oil production in 2026, 15% of a very slight decline is not a big deal in terms of volume, so it is completely absorbable by the European market. In terms of prices, the story is a little different because we have a European gas market that is extremely tight due to lower-than-normal stocks, so even a slight drop in US liquefied natural gas exports could have a significant impact on prices, at least in the short term, on the European market and on gas prices.

In the medium term, the story is a little different, given that we have significant LNG export capacities coming onto the market, particularly from Qatar and the United States, which will be able to meet the increase in European demand.

00:27:37 – Emmanuel Laborde

So, there is no risk of supply. – No, no.

Question, we only have time for two because we need to move along fairly quickly, we're running a little late. Question for you, Anis. What about de-dollarisation? The issue seems to be gaining importance under Trump 2.0. What is different this time from the first attempts made by the BRICS countries under Biden?

00:27:57 – Anis Bensaidani

First of all, I think it's important to clarify that we've just been very nuanced on this subject. We're not talking here about making light predictions about the end of the centrality of the dollar or Treasuries, as Céline mentioned earlier. However, there is still a long-term trend towards diversification, which is particularly evident in the declining share of the dollar in international foreign exchange reserves. From there, it is true that there is a risk associated with this combination of protectionist policies, projects that may or may not materialise, somewhat heterodox fiscal policies, instability and political back-and-forth in general.

These factors have the potential to accelerate this diversification trend and trigger further reallocation. From there, the question is who will be in a position to take advantage of this opportunity.

00:28:49 – Emmanuel Laborde

Thank you all three for this first chapter on the United States.

We will now turn our attention to Europe.

Can Europe rally in the face of these tariffs and the trade war launched by President Trump? We will discuss this with Stéphane Colliac, Guillaume Derrien and Laurent Quignon, who will join us after a very quick jingle. Thank you all. – Thank you. Guillaume, Stéphane, Laurent, hello to you all.

00:30:01 - Stéphane Colliac, Guillaume Derrien, Laurent Quignon

Hello Emmanuel.

00:30:02 – Emmanuel Laborde

It's a pleasure to have you here. So, our second topic is still trade tariffs, but this time we'll be looking at Europe's reactions and remobilisation. We'll understand the play on words behind the title of the conference. Let's start with an overview of the situation. Six months after President Trump began his second term in the United States, a lot has been said and there have been many reactions from Europe. What has changed in Europe since Donald Trump took office, Guillaume? That's a philosophical question, but you have a few seconds to answer.

00:30:34 – Guillaume Derrien

A lot has changed. To sum up, we have witnessed not one but two structural shocks in Europe in 2025. The first negative shock, which is external, is of course the trade war waged by the Trump administration and the renewed questioning of the United States' role within NATO.

And then there was an internal shock within the EU, a positive one, which actually had a somewhat compensatory effect, namely the change in budgetary policy with both the large €500 billion German infrastructure fund and the relaxation of the debt brake, and at the European level, the ReArm Europe rearmament plan, subsequently renamed Readiness 2030.

00:31:12 – Emmanuel Laborde

And we will have the opportunity to discuss this in a few moments. Let's stick with the negative shock for now. How can Europe find its rightful place today between these two economic giants, the United States on one side and China on the other?

00:31:26 – Guillaume Derrien

– Well, it may be forced to do so, but the EU is not seeking direct opposition. Moreover, given its position in global value chains, the 27-member bloc is, in a way, caught between China and the United States.

The United States remains a major supplier for European companies, whether in the automotive, pharmaceutical or aerospace industries, but China is one of the main suppliers of raw materials and critical components. And we can clearly see the consequences when the China decides, as is currently the case, to restrict export licences for rare earths. Moreover, this upstream dependence on China has particularly increased for Central European countries alongside the growth of their automotive industry, as China remains one of, if not the main supplier of automotive components in the world.

Emmanuel Laborde

You mentioned Readiness 2030 very briefly, let's focus on that, because it's a plan on an unprecedented scale. We have never seen anything so ambitious in terms of finance, industry and the military in Europe. Stéphane, can you summarise the main points of this plan for us? Readiness 2030, what is it?

00:32:36 – Stéphane Colliac–

Basically, it's very simple: these are measures that will enable military spending to rise from 1.9% of GDP in 2024 to 3.5% of GDP by the end of the decade. We will also have to keep an eye on the next NATO summit and the prospect of increasing spending to 5% of GDP in the long term.

00:32:55 – Emmanuel Laborde –

So, you're confirming that some things had already been done, but these were almost individual initiatives by certain countries, and, above all, they were very heterogeneous. Is that the big difference with what we should expect now?

00:33:06 – Stéphane Colliac–

Yes, there was a general movement, since we weren't at 1.9% of GDP a few years ago, but some countries are ahead, for example Poland, which is currently above 4 points of GDP, and from a geographical point of view it's quite clear to understand why.

There are also countries that are lagging, countries such as Spain, Italy and Belgium, which are spending about three times less.

00:33:25 – Emmanuel Laborde –

So, Poland's proximity to Russia.

Stéphane Colliac –

Yes.

00:33:28 – Emmanuel Laborde –

OK.

Since the announcement of Readiness 2030, what's new?

What has been set in motion?

Which lines have started to move?

00:33:35 – Stéphane Colliac–

Well, first of all, we are well on track to reach a level of 3.5% of GDP in spending by the end of the decade, on average at least. there will always be countries that are a little above that, countries that are a little below, but on average that is likely, since according to our estimates, we should be at 2.8% of GDP in 2027, based on the announcements already made in the various countries, some concrete, some precise, and some a little less concrete, but on which we have based our estimates.

In concrete terms, there are, for example, the announcements made in Belgium and Spain, where military spending has been raised to two points of GDP fairly quickly, announcements that have not been very precise in other countries, but which we can infer, and then there is the announcement of the German plan, which accounts for the bulk of this increase to an average of 2.8% of GDP in 2027.And here, it is important to also look at the complementary aspects, because, as Guillaume said, we have the infrastructure plan, but we also have the accelerated depreciation mechanisms that should make it possible to finance support business investment in equipment, and this equipment will, in particular, enable the production of more defence equipment.

00:34:37 – Emmanuel Laborde–

So, let's start adding up everything we've mentioned and convert it into euros, above all, to see how much money we're talking about. So, if we're talking about the Readiness 2030 plan, I often hear about Rearm EU, but what about investment in the energy transition and the digital transition? How huge do you think the European Union's financing needs will be?

00:35:00 – Laurent Quignon–

In his report on European competitiveness submitted to Ursula Von der Leyen in September 2024, Mario Draghi estimated the additional investment needed for the energy and technological transitions, and a little for defence, at between €750 billion and €800 billion per year.

And if we consider Readiness 2030, which we just mentioned, we arrive at a collective effort of around €900 billion per year. So, €900 billion per year, to give an order of magnitude, is 5% of the European Union's GDP, and that is more than twice the investment flows under the Marshall Plan between 1948 and 1952. And if, on top of that, we consider existing funding that will continue, we arrive at a total public and private funding requirement of between €1.4 trillion and €1.5 trillion, i.e. between two and three times the funding flows observed in the European Union between 2014 and 2024.

00:36:10 – Emmanuel Laborde–

These are very impressive figures, even for economists, who are not used to juggling such sums. We understand the European ambition for remobilisation that lies behind this. The question is, who is going to finance it? There are a few possibilities: it could be the states, it could be private investors, it could be the banks, it could be the markets, it could be a bit of everything. How is it shaping up?

00:36:29 – Laurent Quignon –

Well, it will be the last option, a bit of everything. Historically, 4/5 of productive investment has been financed by the private sector and 1/5 by the public sector, mainly in the form of subsidies or tax incentives. So, when it comes to defence in particular, the public sector will naturally provide most of the funding, but not all of it, since companies in the sector will need to raise finance from both banks and the financial markets in order to increase their production capacity.

00:37:03 – Emmanuel Laborde–

From what you're saying, aren't we in the process of making the famous Savings and Investments Union project, which has been talked about for some time, a reality?

00:37:10 – Laurent Quignon–

Yes, absolutely, Emmanuel, you're right. So, this famous Savings and Investments Union project, the strategy for which was unveiled on 19 March by the European Commission, is a set of measures aimed at strengthening the integration of capital markets between the different countries of the European Union, in order to improve the circulation of available savings and create investment opportunities for savers and financing opportunities for businesses, with the ultimate goal of increasing the financing potential of capital markets in the European Union.

00:37:47 – Emmanuel Laborde –

So, all of this is a necessary step, but will it be enough? That's the question.

00:37:51 - Laurent Quignon –

It's an important question, and Mario Draghi himself acknowledges that capital market integration alone will probably not be enough to finance such an increase in funding. So, the lesson to be learned is that absolutely no source of financing should be overlooked, which is why several measures will aim to put the banking system in the best possible position to participate actively in the financing effort. Among these measures, of course, the finalisation of the banking union with the aim of establishing a European deposit insurance scheme, which would be preceded by improved management of the failure of medium-sized banks. In the meantime, a pragmatic solution might be to limit this European deposit insurance scheme to large European banks in the first instance, as suggested by Mario Draghi in his report.

And then there are other levers, such as preserving competitiveness in terms of regulation, and the Commission's recent decision to postpone the Basel recommendation on capital requirements for the trading book until 1 January 2027 shows that it is taking a pragmatic approach in this area, that it is concerned about preserving the competitiveness of investment banks and market activities. This decision follows the postponement already made in the United Kingdom, so the implementation of this Basel recommendation will now also be postponed to the same date, 1 January 2027, and there is also complete uncertainty in the United States regarding the implementation timetable.

00:39:33 – Emmanuel Laborde

And then there are also a few ideas regarding securitisation. Shall we come back to that?

00:39:36 – Laurent Quignon:

Yes, the revival of securitisation is an important issue that would both free up capital on banks' balance sheets and release financing capacity for other projects. We are expecting a new legislative proposal from the European Commission in the next few days.

00:39:58 – Emmanuel Laborde:

There are many projects with ambitious financial goals. The question is, Guillaume, does Europe have what it takes to carry out all these projects simultaneously? We are entering uncharted territory, so it is legitimate to ask this question.

00:40:10 – Guillaume Derrien:

I would say yes. We often rightly cite the economic weight of the European Union, which, taken as a whole, is the world's second largest economy after the US. That said, this is nothing new, and the real challenge will be to deepen the common market.

Laurent mentioned the financing aspect, but the European Commission has unveiled and will unveil in the coming weeks a series of measures to, I would say, try to boost European competitiveness. These measures are part of the competitiveness compass presented by the Commission last February.

Among the measures already mentioned are the creation of a special status for small and medium-sized European companies, support measures for the automotive and steel industries, and omnibus packages designed to ease reporting requirements for some European companies. So Stéphane, if the funds are there, if Europe has the means to achieve its ambitions, now we need to find the industrial model. Which factories and how are we going to produce all the military equipment that this plan will require?

00:41:29 – Stéphane Colliac–

So, an important point, Emmanuel, would be to see if we have more production in Europe than before, since we know that some countries import a lot of their military equipment. There could be a community preference established, and part of the Readiness 2030 plan provides for this.

There is 150 billion in joint funding on the table, known as the SAFE program. Under this program, you are eligible if you produce at least 65% of the total within the European Union. So that's the first point. The second point is where we are going to find the production capacity. We can finance it, but it also must exist. There is a slight paradox that could benefit the industry, which is that it is in a difficult situation. There is a decline in industrial production, particularly in Germany and Italy. This affects sectors such as the automotive industry and intermediate goods, mainly metallurgy, plastics and chemicals. And we are facing a rather low production capacity utilisation rate.

00:42:25 – Emmanuel Laborde –

So, confirm if I'm right, one of the options would be to convert factories and, rather than closing car factories, we could convert them to manufacture military equipment.

Is that feasible?

00:42:36 – Stéphane Colliac:

Yes, we already have a few examples. We have the “Fonderies de Bretagne”, which will be filled by Europlasma in Brittany. And then we also have the Rheinmetall factory in Germany, which is being converted from car manufacturing to military satellites. So those are a few examples. This will need to become more significant, on a macroeconomic scale, you could say. And here we have estimated that we could have one percentage point of GDP in additional production capacity freed up, simply by redirecting underutilised production capacity in the seven largest European countries. So, Germany, France, Spain, Italy, Sweden, Poland and the United Kingdom, redirecting them to areas where demand is higher, particularly in the military sector.

00:43:17 – Emmanuel Laborde –

So, we would have the production tool. Now, when we move to this scale, which will be much larger, we will need to finance these companies.

How is the government preparing for this?

00:43:29 – Laurent Quignon–

Companies in the defence sector and other sectors that will be transforming their production capacities will have to raise finance, either through bank loans or by raising debt on the financial market. And in order to take on this additional debt, they will first need to strengthen their equity. If we take France as an example, the Ministry of the

Economy estimates that the additional equity capital required by companies in the defence sector is around €5 billion.

So, we can see the need to attract investors to the private equity segment. Furthermore, equity investors and creditors, whether banks, private equity investors or even market investors, will be all the more responsive to the call if they feel secure and have good visibility on order books.

In other words, governments should commit to multi-year public procurement plans for these companies.

00:44:42 – Emmanuel Laborde:

Indeed, a government commitment and long-term visibility are exactly what investors are looking for, we all agree on that. We'll take your questions in a few moments, so start sending them in. We'll then conclude with our three economists here on the set. So, let's each say a few words to summarise this section. We'll start with you, Stéphane. So, European remobilisation is clearly underway. This should deliver more growth. Would the corollary of this also be more debt and more inflation? I'll let you respond to all these points.

00:45:14 – Stéphane Colliac

Yes, first of all, we must acknowledge that there are still some uncertainties. So, the estimates we can make may be quite different from the reality we will ultimately see. But in any case, with everything we have seen in recent months, our estimates are that we will see additional growth of 0.3 points in the eurozone this year, 0.5 points next year in 2026 and 0.5 points in 2027.So, could this be slightly inflationary, as we saw at the end of the Covid period, when there were a lot of supply constraints, because we have an unemployment rate that is still quite low in the European Union, and particularly in the eurozone?

This is a possibility, but now the reuse of plants for other purposes seems to be a factor that could help limit these inflationary trends. So, there is a possibility that we could see this growth, but not necessarily with a very sharp rise in inflation. And the last factor, public finances, public debt and, ultimately, long-term interest rates, is an important one. In fact, countries that see their deficits increase will also see their debt increase, particularly Germany. They may have some leeway to do so, but the fact remains that debt will increase.

This will mean more debt on the markets, and our prediction is that long-term interest rates will rise in parallel, which would have repercussions if long-term interest rates rise in other countries, particularly France, with a roughly equivalent increase.

00:46:36 – Emmanuel Laborde –

So, we are all embarking on a balancing act. What opportunity does this present for both the European Union and the euro, Laurent?

00:46:44 – Laurent Quignon –

Well, the European Union could benefit to some extent from investors' desire to diversify their international assets away from the dollar and the United States. And it has several attractive features in this regard. The first attractive feature is geopolitical stability. And the rearmament strategy will help to reinforce this attractive feature. The second attractive factor is economic attractiveness. Here, the stronger integration of capital markets and, above all, efforts to improve competitiveness could also play a favourable role. We could even imagine a virtuous circle. In other words, by investing in the European Union and ultimately allowing this trajectory to continue, investors could become increasingly inclined to invest in the European Union. Finally, the European Union can boast a solid rule of law. I would like to pick up on what Anis said during the first panel discussion. So, we have the independence of our major institutions enshrined in the treaties. And revising the treaties is a cumbersome procedure. And the independence of the Central Bank is not under threat.

00:48:12 – Emmanuel Laborde –

Unlike in the United States, with what we were talking about earlier. A final word from you, Guillaume. What difference could this make? Because all of this is a short-term reaction. Everything that President Trump has said over the last six months. If we take a slightly longer view, what difference could this make to Europe's economic strategy?

00:48:26 – Guillaume Derrien–

On the trade front, what is clear is that the European Union must now reconcile strategic autonomy and de-risking with its quest for competitiveness. I think this will lead to two main dynamics. Firstly, the EU will seek to diversify its trading partners by signing new agreements or strengthening existing ones. Several negotiations are already underway. First of all, there is the agreement with Mercosur, which has yet to be ratified. We also know that the EU hopes to sign a trade agreement with India by the end of the year. Negotiations are also underway with Australia and certain countries in Southeast Asia. That is the first element. Secondly, I think that the EU will also seek to redeploy a larger part of its production capacity within its territory.

We can see that dependence on rare earths, in particular, shows that not having complete control over these value chains creates vulnerabilities.

On this point, the EU has fallen behind, particularly in the management and supply of these critical raw materials.

There has been some progress in recent months and weeks. In particular, the European Commission has unveiled a list of 47 strategic projects for the extraction of critical materials on European soil. It remains to be seen whether this measure and those that follow will make it possible to, I wouldn't say resolve but at least mitigate certain structural weaknesses in the EU in this area.

00:50:12 – Emmanuel Laborde –

We'll move on quickly, because we're running a little behind with the questions that are coming in now. First question, focusing on France, what rearmament efforts are planned? What has been discussed at European level that directly concerns us?

00:50:26 – Stéphane Colliac–

For the moment, nothing more than the military programming law that was already in force before the announcement of the Readiness 2030 plan, since we are in a constrained budgetary context that effectively constrains us. What we anticipated was an increase to something equivalent to 2.5% of GDP in 2030. We will probably do more. Our forecast is that we will increase spending by 0.1 to 0.2 points per year, no more, precisely because of this budgetary constraint. And we will have to make budgetary savings at the same time to free up this room for manoeuvre. So, we can see that it's something... It's complicated, but we should have a budgetary support, even if it's not the same as in Germany.

00:51:07 – Emmanuel Laborde

Laurent is up for the challenge; he'll answer in a minute. 1,400 to 1,500 billion in financing flows. We have listeners who listen carefully to us.

That's interesting.

That's a lot, this person tells us. Could new investments in energy and technological transition replace investments in traditional industry?

00:51:26 – Laurent Quignon

That's a very important question because if these investments can replace existing investments, we might not need financing flows as high as the 800 or 900 billion we mentioned. Some economists believe that it is the composition of the financing flows that matters more than the volume and increase in investment flows. We have a recent study by the CEPR, a center for economic policy research, published in March 2025, which answers this question and covers European countries between 2001 and 2021. The conclusion of this study is that increased investment in new technologies does not lead to a decline in investment in traditional technologies in the years that follow. In short, this means that complementarity outweighs substitutability. This does not call into question the possibility of substitution in the long term. It does not call into question Schumpeter's theory of creative destruction, but it does mean that the process is not instantaneous, it is slow, and that for a period we will have both current investments and investments in new technologies or the digital transition. This will require a significant expansion of funding flows.

00:52:46 – Emmanuel Laborde–

Many thanks to all three of you for these extremely relevant analyses. We will now move on to the last chapter and look at the question of whether there are more opportunities or more risks. You will see that, depending on the region of the world, opinions are fairly divided. We will discuss this with Christine Peltier, Hélène Drouot and Johanna Melka, who will join me shortly.

Thank you, gentlemen, and see you soon.

Hélène, Johanna, Christine, hello.

Christine Peltier, Hélène Drouot, Johanna Melka

Hello Emmanuel. – Hello. Hello.

00:53:59 - Emmanuel Laborde–

Everyone in order, perfect. I'm very happy to be here with you and to finish in about fifteen minutes, as we did with the previous three chapters. A comprehensive overview of the impact of tariffs on emerging economies. You represent several regions of the world, and we'll get a quick overview of each region thanks to you. So, we are six months after Donald Trump's arrival, and I think we'll use the same approach, which is quite helpful in providing a good framework for understanding the situation. In six months, many statements have been made, and there has been a lot of feedback on those statements.

Christine, could you give us a brief but clear overview of the current situation regarding customs duties on emerging countries?

00:54:36 – Christine Peltier

Yes, well, first, all emerging countries have seen an increase in US tariffs. Firstly, China, where reciprocal tariffs, i.e. the additional tariffs introduced by the Trump administration, are 30%. If we consider exemptions and sectoral taxes, the effective tariff has risen from 11% at the beginning of the year to 35% today.

For other emerging countries, the additional tariffs are all 10%, but the effective tariffs vary greatly from one country to another. They range from less than 5% to more than 20%.

00:55:13 – Emmanuel Laborde

The question that arises is what the consequences of these tariffs will be, and I say consequences because there are many, many of them. We will go into detail later, but here is a brief introduction.

00:55:23 – Christine Peltier

Yes, so the protectionist shock, first, is a negative shock for growth, and it is all the more severe because the average effective tariffs are very high and US trade policy remains very uncertain.

This shock will affect emerging economies through several channels.

First, there are the effects linked to the slowdown in the US and global demand, and the effects linked to fluctuations in commodity prices. Then there are effects linked to the reorientation of Chinese exports. And there are effects linked to the reorganisation of global value chains and the reorientation of direct investment flows by multinational groups. However, not all these effects are necessarily negative. Some emerging countries could also benefit from certain opportunities.

00:56:06 – Emmanuel Laborde–

So, we'll finish up later with all the positive aspects to give this conference a slightly more optimistic tone, which I think we could all do with at the moment. Let's start with the negative effects and risks. Which countries are most exposed to the slowdown in terms of their exports? Johanna let's start with Asia.

00:56:25 – Johanna Melka –

In Asia, as everywhere else, the countries most exposed to the new US tariff policy and the global trade slowdown are those that are most open and whose main export partner is the United States, namely Vietnam, Thailand and Malaysia. If these governments fail to reach an agreement with the Trump administration by 9 July, Vietnamese and Thai products could be the most heavily taxed. It is estimated that the direct cost to their growth could exceed 1 percentage point. For other countries, notably India and Indonesia, these two countries are much less exposed to this environment because their growth is mainly driven by domestic demand.

00:57:10 – Emmanuel Laborde –

So that's for Asia, let's continue our overview. Latin America, Hélène?

00:57:14 – Hélène Drouot –

So, in Latin America, broadly speaking, there are two scenarios. Firstly, there are the Central American countries, which are highly exposed to the US economy and whose economies are integrated with the US economy. And in these countries, there is obviously the special case of Mexico, where I would remind you, 80% of total exports go to the United States. So, they will be hit hard by the slowdown in the US economy. And they will also suffer a double penalty because they will have high tariffs. These have recently risen to 12%, whereas previously they were virtually zero. So that's the first group. The second group is all the other countries. As Johanna and Christine said, they are less open, so less sensitive. They are also less exposed to the US economy, so they are more sensitive to the slowdown in global trade and to fluctuations in commodity prices.

00:58:04 – Emmanuel Laborde –

So, to complete your overview, what about Central Europe?

00:58:08 – Christine Peltier –

The economies of Central Europe are very open economies. But in fact, their direct exposure to the US market is very limited. For example, the United States accounts for less than 5% of exports from Poland and Slovakia, and even less than 3% for the Czech Republic. On the other hand, the indirect effect of the protectionist shock via the slowdown in exports to Germany will be more significant, at least in the short term. And Central European countries are very vulnerable to taxes in the automotive sector, which is also experiencing economic difficulties.

00:58:39 – Emmanuel Laborde –

So, there you have it. When it comes to tariffs, there is a second risk that we absolutely must mention, of course. This is the arrival of Chinese products, which are of good quality but very, very cheap, and which could flood certain markets. Obviously, anything that doesn't go to the United States will inevitably go to other parts of the world.

00:58:57 – Christine Peltier–

Yes, Chinese exporters are redirecting their exports to other markets.

So, the aim is either to find intermediate countries to circumvent US tariffs or find new markets for their products. This is a trend we have been seeing since 2018.

China has gained global market share thanks to competitive products and low prices in a large number of sectors. This year, in April and May, the decline in Chinese exports to the United States has already been offset by a stronger increase in exports to other regions of the world. So, this dynamic will continue, but it will be more complicated for China. First, Chinese exporters will find it more difficult to lower their prices, and here the evolution of the yuan will be a determining factor. Secondly, countries facing increased competition from China could introduce protectionist measures.

00:59:54 – Emmanuel Laborde –

We can imagine that countries with closer ties to China will be particularly vulnerable to this competition. This has already begun; it is not a new phenomenon.

01:00:06 – Johanna Melka–

Yes, absolutely. In Asia, we have observed that since 2017-2018, the market share lost by China in the United States has been gained in Asian markets. So, since 2017-2018, Chinese exports to Southeast Asian countries have increased by more than 4 percentage points to reach 16.4% of total Chinese exports.

So even though China has increased its exports, it has mainly increased exports to Vietnam and Malaysia, which mainly import intermediate consumer goods. Chinese companies have also increased their exports of final products, particularly to Thailand and Indonesia, weighing on domestic production and local jobs.

So, what we are seeing is that there have already been some fairly negative effects, particularly in the textile and automotive sectors. For example, since 2022, there has been a clear decoupling between Thai household consumption and industrial production.

Car production in Thailand has also fallen, domestic production has fallen, while at the same time imports of cars from China have increased significantly.

01:01:22 – Emmanuel Laborde–

Hélène, do we see this kind of situation in Latin America?

01:01:25 – Hélène Drouot–

Yes, we do, but not quite in the same terms. As Johanna said, trade with China has grown significantly since Trump's first term. China is now the region's second largest trading partner, accounting for around 20% of total imports and just under 15% of total exports.

But in fact, the imbalance is very marked. Latin America exports raw materials and products that are little or no processed, and it imports medium- and high-tech products, which account for the vast majority, more than 60% of the total.

So ultimately, we're not talking about direct competition, but rather the impossibility for local players to develop and move up the value chain.

01:02:09 – Emmanuel Laborde

Let's move on to the positive side, because there are obviously opportunities to be seized in every change. The reorganisation of the production chains of Chinese companies and multinationals will continue and could well benefit certain emerging countries, which is what is interesting. Which ones?

01:02:26 – Christine Peltier:

Yes, it will continue. First, between 2018 and 2024, tensions between China and the United States led to a reorganisation of global value chains, and emerging countries such as Vietnam and Mexico became connector countries. This means that a growing proportion of goods from China passed through these countries before being sold to the United States after processing and value addition.

Over the same period, these countries have benefited from significant direct foreign investment, which has enabled them to develop their production base and their export base in the manufacturing sector. Yes, these dynamics will continue, albeit with greater difficulty and at a more moderate pace, at least in the short term, primarily because the international environment has become much more chaotic and complicated, marked by rising protectionism and slowing global demand.

And then, the Trump administration will exert strong pressure on these so-called connector countries.

01:03:25 – Emmanuel Laborde –

If we turn to Asia, which countries could benefit?

01:03:29 – Johanna Melka–

The countries that will benefit are those that offer the most favourable conditions for foreign investors in terms of labour, i.e. wages and skills, taxation, the development of the industrial and manufacturing sectors, the openness of their economies, integration into value chains and the quality of their infrastructure and logistics services.

So, in Southeast Asia, Vietnam, of course, still has potential, provided it manages to develop its infrastructure, which is starting to reach saturation point. Among the other countries in Southeast Asia, Thailand and Malaysia have advantages, particularly in terms of the openness of their economies and the development of their manufacturing industry. However, Thailand needs to modernise its port infrastructure. As for Malaysia, even though wages are higher than in other Southeast Asian countries, particularly Vietnam, it has recently implemented with Singapore a special economic zone, which will increase its attractiveness.

In the rest of Asia, India is obviously worth mentioning, as it also benefits from certain advantages, particularly in terms of labour, with an abundant and skilled workforce and wages that are lower than those in Vietnam. However, constraints on the development of its manufacturing industry remain strong. Furthermore, relations with China are complex. Today, the main investors are American, but it seems unlikely that they will significantly increase their investments until the Modi government manages to further liberalise the economy, which seems difficult at present given the domestic political environment.

And then, of course, the Trump administration has already made clear its reluctance, shall we say, to see US investment grow in India.

01:05:27 – Emmanuel Laborde –

That's putting it very politely, with a great deal of diplomacy, unlike the current tone in international relations. Let's finish our tour of the world. What about Latin America?

01:05:37 – Hélène Drouot –

As Christine said, nearshoring opportunities are still relevant in Mexico. The industrial base is well developed, wages are still competitive, and there are quite a few opportunities in the renewable energy sector. However, compared to what they were during Trump's first term, these opportunities are more limited because Mexico's internal problem is that governance and the business climate have deteriorated.

Mexico is no longer able to negotiate with the United States; it is not in a position of strength at all, and will therefore be forced to accept numerous concessions, particularly regarding its relations with China and Chinese investors.

01:06:16 – Emmanuel Laborde

So, outside Mexico, what is the situation in the rest of Latin America?

01:06:19 – Hélène Drouot–

Outside Mexico, there are still quite a few opportunities that go beyond competitive wages and geographical proximity to the United States, of course. In Costa Rica, for example, there are skilled workers in the medical sector and in the semiconductor industry. Obviously, there is a huge range of raw materials available, particularly mining resources in Chile, Peru, Argentina and Bolivia. And Brazil also has a very competitive agricultural sector. Brazil is now the leading supplier of soybeans to China, overtaking the United States in recent years. And there is also strong potential for renewable energy, particularly green hydrogen in Brazil. That said, like in all other regions: there is a need to develop infrastructure and there is also probably a need for regional governance that could help with upgrading and technology transfer, which could help rebalance trade, particularly with China, as we said earlier. Dependence on raw materials is never a good idea.

01:07:27 – Emmanuel Laborde

To sum up, as we are coming to the end of this interview, Asian countries are going to be very affected by this trade war. Could they be tempted to look for market share elsewhere? When I say elsewhere, I could mean China or Europe.

01:07:42 – Christine Peltier

So, in Europe, perhaps I'll let Johanna answer that question. In China, in any case, it will be complicated for industrialised Asian countries, even if China manages to boost private consumption, because China is implementing a strategy aimed at self-sufficiency in industrial sectors.

01:08:02 – Emmanuel Laborde–

So, is there potential in Europe?

01:08:03 – Johanna Melka–

Well, as far as Southeast Asian countries are concerned, their trade relations with the European Union are weak. They have even declined since 2017-2018 to account for only 8.4% of Southeast Asian exports, which is not much. However, since the beginning of the year, there has been a real desire to step up negotiations with governments to conclude free trade agreements as quickly as possible. This is particularly the case with the Thai and Malaysian governments, since, at the time of writing, only Singapore and Vietnam have free trade agreements with the European Union. India has more trade relations with the European Union. It is still an important partner for India, which exports 17.4% of its exports to the European Union. And here again, as Guillaume said earlier, there has been an acceleration in negotiations with the European Union in the hope of concluding a free trade agreement by the end of the year.

01:08:59 – Emmanuel Laborde –

We have used up almost all the time we had. On a final note, could this trade shock, this Sino-American war, ultimately be a tremendous opportunity for certain emerging economies? I'm trying to be optimistic.

01:09:12 – Christine Peltier –

Yes, there are opportunities, but they will be fewer in 2025-2026 than in recent years.

In fact, emerging countries should try to reduce their dependence on the two major powers, China and the United States.

This requires measures to strengthen domestic demand and diversify partners, particularly in Europe. All of this requires putting strategies in place and having the capacity to implement long-term development strategies, which remains a challenge for emerging countries.

01:09:42 – Emmanuel Laborde –

Let's take the first question that came in earlier, to thank the person who asked it. Will the Chinese currency depreciate in response to US tariffs?

01:09:52 – Christine Peltier–

Well, that's a question we asked ourselves a lot when Trump came to power, and then when the reciprocal tariffs were announced, on the famous liberation day, it was a period when the yuan was depreciating against the dollar, so there were fears of this kind of strategy.

In fact, the depreciation remained very limited, and the yuan has since appreciated against the dollar. In fact, it's hard to imagine China using the exchange rate weapon in this trade war, firstly because China doesn't want to create financial instability in the region, and secondly, the yuan is already at a low level against the dollar and in real effective terms.

01:10:34 – Emmanuel Laborde–

It's true that this has been Chinese policy for many years. Christine, Johanna, Hélène, thank you very much to all three of you for this wonderful tour of the world and for this third part. We're coming to the end of our discussion, so I'm going to move over to the set to join Isabelle again. I hope you've enjoyed it so far.

01:10:52 – Isabelle Mateos Y Lago–

Absolutely, listening to you all, we've covered a lot of ground.

01:10:56 - Emmanuel Laborde–

We tried.

So, we're coming to the end, and we're trying to extend the program, because there's something very, very difficult going on at the moment. One question, though, to sum up: all of this came about because of the tariffs imposed by President Trump during his second term. Where does this come from? What is guiding each of these choices, and where do you think this could lead us collectively?

01:11:21 – Isabelle Mateos Y Lago–

I'm not inside Donald Trump's head, I must admit, but I think we can trust what he says himself. His goal is to restore America's greatness. However, what is beginning to emerge, I believe, as the central scenario in terms of the consequences of the policies he has implemented so far, is three points.

The first point is a questioning, or at least a weakening, of the sense of exceptionalism of the American economy, which had attracted so much capital to the United States, particularly since Donald Trump's first term. And so, ultimately, this is a bit of a boomerang effect, at least so far.

01:12:07 - Isabelle Mateos Y Lago

Secondly, as you just mentioned in the previous panel, and in the one on Europe, Donald Trump's policies are a very powerful catalyst for other economic powers that were either dormant or just emerging, to roll up their sleeves and implement policies that they could have implemented on their own but did not.

All of this should have positive consequences for these other economies. Third point, which is very important, and again, we couldn't be sure of this at the beginning of President Trump's term, globalisation, I would say, has been affected, but it's not sunk.

And in fact, except for the United States, which has decided to slam the door, the rest of the world seems to want, on the contrary, to redouble its efforts to forge trade agreements, to continue to benefit from global value chains, etc. So, the question that arises is not whether globalisation will continue, which we can answer with a yes, but rather whether a global economic order can function in a stable and effective manner without a hegemon at its center. I think the coming decade will give us the answer. But at the very least, we need to be aware that we are on the cusp of a phase of tectonic change, and it will be a phase of instability and uncertainty, but at the same time, a time when many opportunities will arise, and so it is up to each of us to seize them as best we can, especially us Europeans.

01:13:41 – Emmanuel Laborde

And we need to be agile.

Isabelle Mateos Y Lago

Absolutely

Emmanuel Laborde

We often see Darwin's quote that it is not the strongest species that survive, but the most agile. We can transpose that to the economic world, and in any case, we will be here every six months to support you and give you some insight.

Thank you very much, Isabelle. A huge thank you to the nine economists who have worked hard together to bring you these presentations, and 10,000 thanks to you, as there are so many of you. I wish you all a wonderful summer. Thank you for following us....

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TITLE

HEADING 1

1.1 SUBHEADING

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