PIFS

VE RI TAS
LEX ET IUSTITIA

2025 *Europe - U.S. Symposium on Building the Financial System of the 21st Century*



The Implications of Tariffs for the Global Economy & International Finance

U.S. Tariff Policy as Strategy

- What is the rationale?
  - Revenue to enable larger tax cut
  - Leverage to dismantle unfair trade policies
    - Sources of “unfairness”: currency policy, NTBs, VATs, etc.
  - Industrial policy to promote reindustrialization of America
  - Geopolitics – containing Chinese economic and tech growth
  - Rebalancing global economy

- What is the endgame?
  - Higher tariffs likely to last
  - What if tariffs don’t eliminate bilateral or overall imbalances?
  - Will there be a return of economic blocs?
  - Who will absorb Chinese exports?

Impact on Trust and Uncertainty

- Concerns over whether U.S. is trustworthy
  - U.S. appears to be violating international agreements, including WTO, FTAs
    - Is it justified by others' bad practices?
  - Can U.S. be trusted even if agreements are reached?
  - What's the alternative?

- Uncertainty in global trade
  - How are U.S. tariff rates being set?
  - Lack of transparent process
  - What will negotiated agreements look like?
    - Is there a first-mover advantage for trade negotiations with U.S.?
  - Is collective action by U.S. trade partners feasible or likely?
  - Can supply chains actually be moved? And is China replaceable?

Effects on Global Economy (1)

- Forecasting complicated by uncertainty
  - No one knows how proposed tariffs are calculated
  - Negotiation outcomes also unpredictable
    - Will trading partners choose to capitulate, negotiate, or collectively push back?
  - Will tariff impositions be “one and done” or Smoot-Hawley-style spiral?
- Implications for short-run growth and inflation
  - Negative for growth, possibly less bad for the US than others
  - Inflation likely in the US, possibly deflationary in Europe
  - Supply chains don’t shift quickly

Effects on Global Economy (2)

- Long-run outcomes
  - Will the US get a productivity boost and benefit from optimal tariffs?
  - Can the rest of the world rebuild supply chains?
  - Higher costs of trading, transactions, etc.
  - Global trade likely to decline, especially if reshoring is adopted widely
- Effects on financial services
  - Finance not covered by WTO, so no direct impact
  - But finance tends to follow real economy
  - Will retaliatory cycles in trade bleed into finance (in negotiations over substituted compliance, etc.)?

Opportunities and Challenges for Europe

- Crisis as catalyst for EU to stand on its own 54 feet
  - Have already seen rapid shift in defense policy
  - Opportunity for SIU
    - Increasing importance of financial integration for productivity, growth prosperity
    - Is it a big enough crisis?
    - Challenges of diverse (and competing) national interests
  - Potential rise of the Euro as global currency: safety as the new sexy
    - Potential for increased attractiveness of European financial markets
- UK as potential bridge between US and EU
  - UK first in line for trade agreements
  - Neutral venue for global finance
  - Can innovate unimpeded by EU policymaking and legislative processes
- Could there be a return of Fortress Europe rhetoric and policy?
  - Rise of populism not confined to US
  - Anti-EU sentiment strengthening within Europe

Future of the Global Trading System

- Whither the WTO?
  - WTO already in midst of reform discussions on a variety of issues
  - US is still a member and remains active in discussions
  - Plurilateral agreements remain viable options
- Will there be a new EU-led rules-based system?
  - The EU can stand for rules, predictability, procedures
  - May attract like-minded states
  - First step: EU-CPTPP?
- Rise of trading blocs?
  - US agreements likely to require restrictions on trade with China
  - Clusters of economies based on supply chains, markets, and political affinity
  - If there is a China cluster, how will the US and EU respond?

Expanding Access to Private and Public Capital Markets

Why Private Markets?

- Benefits to investors
  - Aligns interests, incentives, maturity & risk preferences
  - Lower regulatory burden, costs of compliance
  - Higher returns to date
- Benefits to companies
  - Provides risk capital that can spur innovation
  - Most companies unable to access public markets
  - Greater speed and flexibility in accessing finance
- Benefits to economies
  - Mobilize savings for productive investment, innovation
  - Faster decision-making reduces transaction costs

Rise of Private Markets in U.S.

- U.S. has seen rapid rise in private markets
  - Essential to SME finance; even large companies increasingly prefer to go private
  - U.S. banks limited in ability to provide loans for growth and innovation
  - Private credit offers more flexible terms, speedier decisions
  - Tax policy advantages private over publicly-traded products

- Increasing availability to retail investors
  - Restrictions have kept many investors out of higher returns
    - Excessive investor protection hard to justify when anyone can invest in crypto, derivatives, etc.
    - Shift from income/wealth-based qualifications to knowledge-based qualification
  - Access via other investment products (mutual funds, annuities, etc.)
  - Rise of secondary markets for private equity and credit
  - Potential of tokenization to vastly improve liquidity
  - But must ensure that investors understand risks, including pricing and illiquidity

Public Markets in Europe

- Public markets in Europe not meeting their potential
  - Fragmentation of trading venues persists
    - Consolidated tape will help, but other obstacles remain
  - Fragmentation of government debt markets
  - Securitization still limited
  - Continued investor hesitance
- Securitization as vehicle for shifting savings to investment
  - Securitization liberalization as low-hanging fruit
  - EU-regulated products currently limited to mortgage-backed
  - Solvency II restricts insurance companies' participation

Private Markets in Europe

- Opportunities for private markets in Europe
  - Massive savings should be used for massive public and private investment needs
  - SMEs need more nimble options to finance innovation and growth
  - Hybrid public/private markets (e.g. PISCES)
- Obstacles to growth of private markets
  - Restrictions on access by retail investors
  - Restrictions on investments that pension funds, UCITS can access
    - Listed securities, single, transparent, standardized (STS) securitizations & regulated funds
  - Solvency II traps long-term funds into low-yielding investments
    - Contrast with U.S., where insurance companies are major players in private markets

Creating an "Investor Mentality"

- Why are European households savers rather than investors?
  - Low risk tolerance
    - Surveys show wealth preservation as highest priority
  - Lack of experience with investment
  - Weak returns in equities and funds
  - Are regulators overemphasizing retail protection at the expense of returns?

- What could create an investor mentality?
  - Increasing availability of defined-contribution pension options
    - This has been an important part of the growth of U.S. investment culture
    - Households in economies like Netherlands and Sweden more open to investing
  - Increasing retail experience with investment products
    - Younger generation more comfortable due to crypto and app-based investing
  - More and better investor education still needed

UPCOMING EVENTS

2025

China - U.S. Symposium
September 24-26, Washington, DC

Japan - U.S. Symposium
November 20-22, Karuizawa, Japan

To receive an invitation to other PIFS Symposia,
or to recommend your colleagues for participation, please contact:

Whitney Vasey
wvasey@pifsinternational.org | 857-242-6072
www.pifsinternational.org