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PANEL DISCUSSION:

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ROUSE: So, I'm Cecilia Rouse. I'm the president of the Brookings Institution, and I want to thank you all for joining us whether you're here in person or tuning in online. Today, I am excited to announce the release of “New Global Dynamics: Managing Economic Change in a Transforming World.” This book was edited by Zia Qureshi, senior advisor in the Global Economy and Development program here at Brookings, and Daehee Jeong, the senior director of the Department of Macroeconomic and Financial Policies at the Korean Development Institute, or KDI. Brookings deeply values the research partnership with KDI, a leading Korean think tank. I would like to personally thank KDI's president, Dr. Dongchul Cho, for being here this afternoon, and you'll be hearing from him in a minute. But first, a little scene setting, if I may.

Today, our world faces challenges as enormous as they come. They're complex. Artificial intelligence may impact 60% of jobs in advanced economies and 40% of jobs in emerging economies fundamentally reshaping our labor landscape. At the same time, if geopolitics fracture international economic relations, the costs from trade fragmentation alone could rise as 7% of global GDP. Compounding these challenges, climate intensified natural disasters could result in $12.5 trillion in economic losses and the loss of over 2 billion healthy life years by 2050. I could go on, but my point, my main point is this: We are facing a conflux of powerful forces of change, ranging from technological transformation to geopolitics to the climate crisis. This book examines the implications of these forces for the global economy, international power structures and the future of globalization focusing on the shifting dynamics in industry, industry trade and finance. I'm excited about this new piece of scholarship, and my reason is threefold.

First, the book reflects Brookings’ institutional commitment to providing valuable insights and analysis on the complex challenges facing decision makers. Second, the book really reflects Brookings' dedication to diversity. It is enriched by contributions from a diverse team of scholars from Brookings, the KDI and other institutions who bring unique expertise and perspectives. And finally, international cooperation in today's world is intimidating, yet essential. These authors take a clear stand. In a more volatile world, we must persevere. We must preserve, indeed strengthen a rules based international order. Their vision is clear, concrete, and compelling.

To discuss the challenges of navigating new global dynamics, we have a strong panel with us today, Anabel González, Eswar Prasad and Laura Tyson. I'm especially excited to welcome Laura back to Brookings as we share the Council of Economic Advisers. We are both alumni as former chairs. Before we hear from the panelists, I will now turn the floor to President Cho. Please join me in welcoming him to the stage.

CHO: Thank you, President Cecelia Rouse. Good afternoon, everyone. Welcome to this book launching event, which is a result from the joint research conducted by KDI and Brookings Institution over the past two years. I would like to thank all the experts from various areas who contributed as authors to this book, as well as the two editors, Zia Qureshi and Daehee Jeong for their hard work. My sincere appreciation should go to President Cecilia Rouse again for her genuine support for this project and to our esteemed panelists participating in today's discussion. Professor Richard Baldwin, I just was notified he missed his flight, the flight, so couldn't participate in person. But I still appreciate his participation. And Professor Laura Tyson and Professor Eswar Prasad and Vice President Anabel González.

This book addresses recent changes in globalization, trends, their impact on the global economy and the choices policymakers in each country must make. Of particular significance is the collaboration between the Brookings Institution and KDI. Brookings Institution played a key role in shaping and spreading the core values of globalization based on neoliberalism after World War Two, often referred to as the Washington Consensus. While the Korea Development Institute, KDI, played a significant role in making the Korea's economic miracle based on such policy directions. From this perspective, this project should carry profound meaning, as the two institutions have come together again to reflect on perhaps our new Washington consensus, whatever that means. And explore a new global order in a rapidly changing world.

Professor Robinson, this year's Nobel Prize winner, has positively assessed the creativity of the Korean economy, stating that Korea advanced through an export-led economy. But it did not stop there, demonstrating its unique creativity. This creativity refers to not only K-culture, but also the ingenuity involved in establishing institutions that realize the aspirations of people seeking prosperity.

The global economy thus far has advanced through the establishment and maintenance of a rules-based international order promoting the globalization of trade, finance and investment, which I believe has clearly contributed to the prosperity we are enjoying today. While the current global economy environment is becoming more challenging due to the tension between the U.S. and China, growing protectionism and climate change and so forth, we must overcome these challenges by creating a new international order, just as we have done in the past. I believe, and this is the only way to continue global economic prosperity, and I sincerely hope that Korea's proven creativity can contribute to this long journey. As we will discuss in more detail in today's forum, the real-world concept of globalization has been restructured and evolved consistently. I hope this research and ensuing debate will help us find new global consensus, perhaps new Washington consensus in reshaping global dynamics. Thank you very much for your attention. Thank you.

JEONG: Thank you, President Rouse and President Cho for your welcoming remarks to set the stage for our discussion. Very well. I'm Daehee Jeong from KDI and together with Brookings. I had the privilege of co-editing the book that we are launching today. We had the good fortune of working with a team of terrific contributing authors, some of whom are here in person, including Laura Tyson, Eswar Prasad, and [inaudible]. Allow me to say a few words about the book. I'll be brief and to touch on a few main points in order to leave adequate time for the panel discussion that follows, and I'll inflict only once like this slides on you. I hope you will look at the book for more of its analysis, findings and policy message messages. The slide now on the screen provides a summary schematic representation of the book's framework and main themes.

The book is motivated by the time we live in, which is one of the transformative change. The book essentially do three things. First, it looks at today's major forces of change depicted in the left arrow. The slight the second, it analyzes their implications for the global economy and the future of globalization delving into the shifting dynamics in industry, trade and finance showed in the middle arrow. And third, it addresses the challenges that institutions and policymakers face at national and global levels in managing transformative change captured in the Right box. Global geopolitics is shifting. The growing economic and geopolitical power of China is challenging the postwar international order led by the United States.

The U.S. China hegemony rivalry is increasing geopolitical tensions. There is a surge in economic nationalism, with nationalist industrial policies and protectionism on the rise, even in advanced Western economies that have been the champions of neoliberal visions of free markets and open and nondiscriminatory multilateralism. The digital revolution is transforming markets, work business models, international trade and financial networks. Artificial intelligence and related new advances will greatly expand the frontiers of this transformation. The full potential and application of the latest technologies are still evolving. Today's powerful innovations create enormous new opportunities to advance economic progress but also pose complex policy and regulatory challenges. Inevitably, major technological transformations is associated with economic and social disruption. The dislocations in rising inequality within economies have been fueling societal discontent and political polarization.

Climate change adds to this picture of transforming war and climate transition will alter economic structures within countries and interconnections, among them profoundly affecting the patterns of production, investment and trade. With so much change happening, the global outlook will be more uncertain and volatile. Globalization is in transition. The world may not be globalizing, but globalization is restructuring. And there is there are real risks of globalization, fragmenting along lines drawn by major power rivalry, disrupting supply chains, entailing larger costs for all involved. Future patterns of globalization will depend crucially on how countries manage the shifting international power structure in a more contested world, a rules based international order becomes even more critical. The world will collectively benefit from recommitting to multilateral frameworks governing economic relations between countries and adding disciplines covering new areas of activity, notably the digital economy and the technologies driving it.

A rules based multilateral economic order developed over decades has not only fostered global economic prosperity but has an important foundation of geopolitical stability. As economies evolve and economy power structures shift new competition dynamics in the global economy are inevitable. But all must play by internationally accepted rules. As digital technologies in AI open new avenues for growth and international integration. They also present challenges for policymakers. They require new thinking and approaches.

New dynamics in industry, labor markets and trade must be managed to foster inclusive growth, facilitate necessary structural change and ease social adjustment. New frameworks must be developed to regulate digital markets. Digital innovations in finance must be secured by appropriate oversight. The latest technologies powered by AI have immense economic potential but also carry serious risks of misuse. Some are dual use technologies with civilian and military applications. They can become a battleground for techno nationalism in the context of major power rivals. Cooperative frameworks will be needed to balance national and security concerns with broad technological, technology diffusion across nations.

International cooperation has become more challenging in the evolving geopolitical environment, but it is essential in matters ranging from trade policies to global financial architecture to the regulation of new technologies. And it is indispensable for combating climate change. As to climate change inherently is universal. Countries will need to rise above nationalist and geopolitical interests in areas such as green technologies and energy transition. The future of global economy and indeed of humanity will depend on how nations engage on matters of global commons from a rules-based international order. So, there is a lot to discuss, and we have a great panel to do so. Let me now invite our esteemed panel to the stage and turn it over to Zia Qureshi, who will moderate the panel discussion. Thank you.

QURESHI: So, we all set? So? So, let's start. So, let me start by thanking President Rouse and President Cho for their stimulating opening remarks and by thanking Daehee Jeong, my coeditor of the book, for a very nice overview of the book. So, all of that sets the context for our panel discussion very well. I'm Zia Qureshi. I'm Senior Advisor in the Global Economy and Development Program here at Brookings and I have the privilege of moderating this discussion with our esteemed panel. And to say that we are living in a time of change is to state or rather understate the obvious. The world today faces not just change, but rather a confluence or a triad, if you will, of powerful forces of change, from technological transformation to shifting geopolitics to climate change. So, an important question is how these forces of change are affecting the global economy. And this is a particularly apt question for this week, when global economic and financial leaders are gathering in Washington for the World Bank IMF annual meetings.

And to address this question, we have a very strong panel with us today. All of our panelists have deep expertise and have made noted contributions on the topics that we will be discussing. In the interest of time, I would be brief in introducing our distinguished panelists. The event website, the event page on Brookings website has links to their impressive full bios. So, in the order of seating to my right is Laura Tyson. She is a distinguished Professor of the graduate school at the High School of Business at the University of California, Berkeley, and she's a former chair of the Council of Economic Advisors and Director of National Economic Council at the White House. Then we have Anabel González. She is the Vice President for countries at the Inter-American Development Bank.

And previously she was Deputy Director General at the World Trade Organization, WTO. And Eswar Prasad is Senior Professor of Trade Policy at Cornell, and he is also a Senior Fellow in the Global Economy and Development Program here at Brookings, where he holds the New Century Chair in International Trade and Economics in the announced program. For this event, we had a fourth panelist, Richard Baldwin. Unfortunately, he cannot be with us today. He informed us that he missed his flight to Washington last night because of a delayed connecting flight. So sorry about that. But we will try to make up for his absence. So, we will proceed as follows. We will first have a couple of rounds of questions with the with the panelists. And the questions I will ask also to reflect some of the comments and questions we have received in advance from those registering for this event. And then we will open it up for questions from the floor.

And those joining online can submit live questions by email to events@Brookings.Edu or via X or Twitter @BrookingsGlobal is using the hashtag #NewGlobalDynamics. And lastly, if you would like to obtain a copy of the book we are launching, copies will be available for purchase at a discount at the at a desk just outside this auditorium. So, with that, let's begin our panel discussion and I will start at my immediate right. So, Laura, we. Heard that the world faces some powerful forces of change and their impact are deep. They are pervasive within economies and at the international level. So, you have a paper in the book about the implications of these forces of change for globalization. I mean, these days, people hear terms like slow-balization, deglobalization, geoeconomic fragmentation, etc. Yes. Yes. How do you see the outlook for globalization and what are the major risks or points of tension that you see in the outlook?

TYSON: Okay. So, I want to start by noting that if you look at my own personal history in my writing, I have been a big fan of globalization. And I and I remain a big fan of globalization. I think there are lots of indicators. I don't need to go through all of them about how the world benefited. There were groups, however, who did not benefit. And part of what has happened here is the sentiment in favor of globalization, particularly in the U.S., has actually been diminished by the political reality. Another very important piece related to that was the great China Shock paper, which basically pointed out that in parts of the U.S. that were impacted by significant imports from China and loss of jobs and loss of companies and loss of communities that those regions, those places voted disproportionately to bring Trump in President Trump into his first term. And there was a lot of anger towards globalization, a lot of rethinking about globalization.

So, what's happened, of course, is that we, from hyper globalization, even before that, we went into slower growth. And that was because of the great financial crisis. The great financial crisis really did slow trade and slow foreign direct investment flows, another measure of globalization. So, I think we already had entered a slower period. No more hyper-globalization, no more trade and finance growing faster than any other indicators of GDP or anything else. So we were in the slower phase, but then we also began to see, I would call it reconfiguration rather than fragmentation that can lead to fragmentation. But the reconfiguration was significantly in the U.S. motivated by concerns about China. I will say that for the proponents of globalization in the United States, when I was arguing at the NEC, I was arguing at NEC, we should absolutely embrace China in the WTO, that that was a key thing we needed to do to get them to be part of the rules-based system. And we didn't predict that their amazing growth in manufacturing capabilities.

We did not predict their emerging growth and technological capabilities. And the rules-based system that we have does not really control very well, if at all, the policies that China was using to do this. So, when we're talking about a rules-based system, I think we have to be careful here. The rules didn't cover a lot of things that China did very well, that China did very well. And so, from a U.S. perspective was like, my goodness, they have emerged as our major economic competitor, our major technological competitor and our major geopolitical competitor, because I think one of the things we was not probably raised in this. We also have to take into account XI here. We have to take into account the change in China's leadership, too. And when we think about like, we want a new rules-based system. China doesn't want the same rules-based system that they are trying to displace. They don't. They've made that very clear.

So, anyway, the protectionist kind of, we better worry about conflict with China, we better to the extent that we can decouple our economy from China, particularly in critical sectors. All of that is tied to these things going on, which is the surprising rise of China at the pace that they occurred. The change in leadership for China, the growing disagreement between the US and China on issues like what the rules, the international rules should be. And so there is decoupling. There is decoupling. That is real. And what that shows, the way that shows up besides US-China trade, is there is some connector countries that have benefited from this because what China has done, to the extent it can, is move its production facilities to places like Vietnam and Mexico so that they can export into the United States. But also, Vietnam and Mexico are developing their own capabilities to displace China. And so, you do see a change in regional, what I would call it the near shoring of production and the friend-shoring of production and the connector country.

So, you know, some and that has been associated, by the way, with a significant increase in trade restrictions. And by the way, the U.S. has led the way. You know, the US is basically if you look at the number of trade restrictions that have been posed in the United States, that started really, I would say significantly during Trump. We have just gone for it. And even with the administration that I support the Biden administration, they have extended the Bush, the Trump tariffs, and they've increased the Trump tariffs. So, the U.S. is in quite a feels, we feel vulnerable, honestly vulnerable, economically vulnerable, technologically vulnerable. Increasingly from a defense point of view, because so much of the critical sectors we're talking about semiconductors being at the top have massive military implications, massive military implications.

So, we used to believe that the US Defense Department should buy technology from the market because the market had the best technology available. Yeah, but anybody can buy that technology in the market. And China is increasingly producing that technology for the market. So anyway, there are there are all of those things going on. I want I'm going to stop with just the notion of when you think about a country and what, why does it care? What are the benefits for trade and foreign direct investment for a country as perceived by the leaders of that country or the population of that country? One is growth, jobs, Wages. From the US. Perspective, I think misguided, not based so much on facts, but misguided on both sides of the aisle. There's a view that trade, in particular trade with China, is doing none of those good things for us. It's destroying jobs, it's destroying employment, it's reducing wages or putting wage pressure downward on wages. Okay.

What else do you want from a trade? Well, you do want sustainability and climate. And I think this is really important because we're going to get on to industrial policy. But I think we actually here need to be trying to figure out a way to work with Europe and work with China and work with the rules-based system to deal with things like carbon adjustment mechanisms at the import carbon adjustment mechanisms. I think that's something if you care about climate and climate is part of the trade agenda, your trade agenda, then you've got to figure out the rules for that. And then finally, geopolitics. And I've already talked about that. So basically, right now, the U.S., I think, looking at those three, doesn't really think that trade and that globalization is serving us interest in those three areas.

QURESHI: Yeah. Thank you. Just a quick follow up to draw out the role of technological change in this context a bit more, which is particularly interesting. On the one hand, technological change is a globally unifying force, right? Yeah. The digital revolution are creating a new, I mean, theoretically borderless global landscape, right? Yes. On the other hand, it can be a dividing force. For example, you mentioned the advanced technologies, which have dual use, civilian and military advanced, particularly advanced AI systems and applications. They carry the risk of becoming a battleground for technological supremacy.

TYSON: Weaponized, weaponized.

QURESHI: That advantage in, you know, in major power rivalry. So, and this can drive, shall we say, techno nationalism and feed economic nationalism. So, there is this kind of two forces related to technological change in terms of how it is it is or may affect globalization. There is a unifying aspect and there is the dividing or divisive aspect. Any thoughts on that and will that move to Anabel.

TYSON: Yes, I have two quick thoughts. One, on the dividing aspect. I'll start with that. So, we know that one of the things that has mobilized the US to consider industrial policy and more interventions to slow down China is China's own made in China policy. So, China has identified several key technologies of the future and basically said we want to be the number one in that technology, in producing that technology and innovation of that technology. And we will do whatever we can to get there. And furthermore, look at our success record in past things. We're really good at this. So, if we structure the economy with those goals will succeed. Okay, so that's really divisive in the sense that the US feels, my goodness, then you hear the U.S. saying, 'No, no, no, we've got to actually maintain a technological lead in all of these, all of these things.' And we've, and in order to do that, we're going to have to block trade, we're going to have to block trade and drop block trade in services, block trade in technology, park trade in either technological agreements.

The other thing I want to say is I think that we have underplayed the role of technology for a long time in undermining the support of populations, particularly in the developed countries, for trade. Because I believe that the technological change is the same. Author David Otter, who wrote the Great China Shock piece, has written many, many, many pieces over many decades to show that the demise of middle-class jobs in the developed economies was primarily the result of technological change, not globalization. And I've asked him; would you count up the number of jobs? He said, yes, the number of jobs, the technological displacement is much bigger than the trade displacement. So technological, technological change has already been divisive in a sense of certainly undermining support. I don't think anybody knows what's going to happen with AI.

So, I'm just going to say that, you know, we heard the estimates from CeCe. Yeah, a large number of jobs could be affected. A large number of jobs might not be affected. That might take ten years. I just don't know. I just. But I do know that the US and China are basically one and two, and I and the US is committed, at least in the words of Jake Sullivan, to make sure we stay to at least two years ahead of

China on AI and quantum computing. I don't know how you measure those two years. I don't even know what that means. But that's the goal, to stay two years ahead.

QURESHI: Thank you, Anabel. So, to add to this soup of terms, slow realization, globalization, we have read globalization, and this term has featured prominently in the recent narrative from WTO. Last year, while you were still at WTO. They published a flagship report titled Re Globalization for a Secure, Inclusive and Sustainable Future. So, what is this re globalization? Does it mean a reimagining of globalization in today's new global dynamics? And if so, in what ways?

GONZÁLEZ: So, first of all, thank you very much for having me Zia and congratulations to you and your coeditor that he is one of the authors in the book. I was fortunate enough to receive a copy before boarding a long flight. So, I've actually read the book already. So, congratulations are very, very interesting pieces in there. So, in simple terms, the 2023 World Trade Report defines recapitalization as extending trade integration to new topics, more people and more economies. That is basically a renewed push towards deeper and more inclusive global integration as a response to the challenges that the global economy faces and that Laura was referring to. Be it from geopolitical tensions to environmental threats to public health crises and more.

So the underlying rationale is that an inclusive globalization that covers new topics such as digital or green trade and then integrates a broader set of economies and people who up until now may have remained at the margins of the global economy can provide actually the flexibility that is required to address some of the unexpected challenges that that that the global economy faces, like climate change. It is also the case that through greater diversification, globalization can also help address concerns related to dependency or over dependency on some suppliers, for example, on strategic quotes. And it is also the case that bringing more people and more countries to benefit from trade can help address some of the inequities in the global trading system and strengthen support for trade integration. Now, we know, and I think this the book makes this point certainly in the chapter by Laura, that despite rising geopolitical tensions, trade has remained resilient.

You know, we saw this during the pandemic and during the Ukraine war with the pandemic, it was through trade that we got access to the critical materials. The vaccines, of course, required 19 imports that came from all over the world that needed to be made. And then there were sent to different parts around the world. But also, during the Ukraine war, diversification of suppliers, for example, laid out countries like Ethiopia to have access to wheat that they did not and could not get from Ukraine or from or from Russia. Now, having said this, it is also the case that particularly since the since the war in Ukraine, trade has become increasingly sensitive to political alliances, where the trade between geopolitical blocs growing between 4 to 6% slower than trade within blocs.

And key findings from this WTO report shows that if countries would retreat from globalization in favor of more unilateral or even regional approaches, then it would lead to significant economic and environmental cost. And this is where we have seen some of the numbers that both the IMF and the WTO have come up with, which is that geopolitical fragmentation, if it would proceed in full, it could reduce GDP, global GDP from anywhere between 5 to 7% impacting developing countries the most. But also, fragmentation could also make it harder for countries to respond, for instance, to climate change, because those technologies that, you know, would be in reference to the way that they can reach the great majority of countries in the world if through trade. Yeah. So, this is where geographic globalization comes in as countries may start to source from new suppliers.

And here I think the evidence shows that there is some visible shift in world trade that could be consistent with this geographic globalization and partly linked to the decoupling between the US and China. And Laura was mentioning examples from Mexico and Vietnam. There are countries that are already well integrated into the global economy, but of course they are becoming, but some others called the connectors. And this new environment, but also other countries like India, Malaysia, Singapore, Thailand have also increased their imports from China and increased their exports to the United States. Now, if we also look at our foreign direct investment, which is a precursor of trade, we also see some changes there. And these redirected flows have again, mostly benefit countries that are already well integrated into the system, shifted from China to Mexico or from Eastern Europe in the case for instance, of that of the EU.

And in the case of that, you have also some countries in Central America. My own country of origin, for instance, Costa Rica included. Now, the question to me is how can you, how can you leverage this opportunity? How can you broaden this concept of globalization and try to turn it into a force for trade resilience and inclusion? And here there is a recent paper from some WTO staff that suggest that heightened trade policy uncertainty driven in part by all these unilateral measures that are being adopted, coupled with an increasing challenging macro-economic environment, maybe leading to concentration of FDI and deterring this broad-based globalization. Right. But both are true that many developing countries in particular have high trade costs, and this high trade costs act as a deterrent to globalization.

So, for developing countries in particular, to capitalize on renewed trade integration and benefit from the gains of globalization, they need to act, I think, on two fronts. On the external front, support for a strengthened multilateral trading system can help push against rising global policy uncertainty, which is very detrimental for these countries. But also, there is a very important domestic agenda. There's a very important domestic agenda to reduce trade cost, provide greater predictability in the business environment, enhance market access to marginalized groups within their own countries to the benefits of trade. So, there is a combination of things that need to be done, both at the. Our level, but also at the national level. Again, too, for this concept of globalization to fully revive its search as a force, as a force for good, as a force for greater resilience and a force for inclusion.

QURESHI: Thank you. A quick follow up there as well. Looking to the future of trade. You know, digital trade is the fastest growing part of trade today. And digitally deliverable services are the most dynamic part, thanks to what Richard Baldwin, who couldn't be here today. As we mentioned earlier, what he called globotics, the combination of globalization and robotics, so much so we are seeing both a digitalization and service-ification of international trade now and going forward, which creates its own opportunities and challenges. Any quick thoughts on that go to?

GONZÁLEZ: So, I think you're right in saying that digitally delivered services is a great opportunity. They have been growing by 8% on average for the past ten or 12 years and providing new opportunities. And actually, if you go and look at countries like India, Ghana, again, my own country, Costa Rica, digitally delivered services, represent over 20% of total exports. So, it's quite it's quite impressive and it's already happening. But again, there are much more opportunities for other countries out there, including, again, in in this part of the world, in Latin America now, very far as in the same way as I was mentioning before, I think there are both a global agenda and a national agenda at the global level, we do not have yet multilateral rules on digital trade, and that's a sensible topic for sure. There are some of that, some of the discussions around, you know, issues like data, localization and others are very complex.

But it's also true that there are some other rules that could be more basic, referring to issues like electronic signatures, for example. Now, in the WTO, they have been working now for a few years in the negotiation what is called a joint statement initiative on digital trade that aims at precisely bringing some rules that would set the stage for digital trade to continue to grow. Now, at the national level, there is an important agenda, of course, to close the digital divide, both in terms of connectivity, infrastructure skills, the regulatory environment. And this is again where the role, for instance, of regional development banks like the one in which I work today, becomes important because the combination of these two factors, again, could open enormous opportunities for more people and more economies to benefit from trade.

TYSON: Can I just ask a question? It's what about plurilateral agreements? What about the notion that I completely agree we're going to need more and more agreements around services, but we may not be able to get a global agreement, but we might be. You know, this notion that we we're trading partners that are allies, trading partners that see the market rules the same way we see the rules. What about plurilateral?

GONZÁLEZ: I think you’re; my sense is that the future of the trading system is through plurilateral as there is. I mean, there's a role for multilateral platforms are important. And this agreement on digital trade is precisely a platform with over 90 countries participating in it. But still not the 166 members that are part of the WTO.

QURESHI: I was going to come back to a bit later on the role of the WTO. That's an important question.

GONZÁLEZ: It's very important, yeah.

QURESHI: Today's forces of change are not only affecting trade and industry that we've been discussing but also finance. And you have written extensively about the implications of new technologies for money in finance, and you have a chapter on this topic in the book. How do you see the benefits and risks of these new financial technologies? The implications for the functioning of financial markets are significant. Is that also the case for the international monetary system? And relatedly, in today's geo politicized world, there are risks of geoeconomic fragmentation. We touched on that. Do you also see risks of geo financial fragmentation?

PRASAD: So, first of all, Dr. Qureshi and Dr. Jeong, I admire your foresight in putting together this book. It's very timely, very. And I'm also very grateful to you for letting me be part of this very distinguished group of architects, including Dr. Tyson.

TYSON: True.

PRASAD: So, if one thinks about the broader aspects of globalization, one should think about the role of governments versus the private sector. The government can put up barriers, take down barriers. It can affect the contours of globalization. But ultimately, the forces of globalization are really driven by the private sector, by firms both domestic and multinational, by people and their intersections with politics. And it's worth thinking about what the incentives are facing firms in this world where they seem to be retreating from globalization. Now, once upon a time, if one thinks about the worlds of trade and finance, which are of course very closely connected, there was this notion of globalization leading to very lean and mean supply chains that would reduce costs, increase efficiency, increase the overall size of the pie and make us all better off.

As Laura has correctly pointed out, it did not make everybody better off. So, it set off this very adverse loop between economics on the one hand and domestic politics on the other hand. And now geopolitics is adding a layer to that. If you think about the response of firms, what they are responding to is what they perceive as elevated risks in this globalized world. Once upon a time, they did not have to worry so much about issues like geopolitical risk. There's always been geopolitical risk, but certainly it has picked up pace. And when you have a very finely traded supply chain, these risks of geopolitical disruptions of even climate change disrupting one part of a supply chain which throws the entire supply chain off, are risks that companies have to contend with. There are two things they can do potentially to reduce the exposure to this risk.

One is to stop moving forward towards lean and mean supply chains, perhaps undertake reshoring, which certainly eliminates some types of risk. Perhaps undertake for insuring which reduces the exposure to geopolitical risk. But I worry that in fact, we might be leading to a world where not only is efficiency compromised, but we might actually be entering a world of even greater risks. Let me explain. If you think about firms being much more concentrated in one geographical area, one region exposed to risk, like climate change potentially increases. If you think about reducing exposure to geopolitical risk. One of the key elements to keep in mind is that economics has for a long time been seen as a positive sum game, even in the US-China relationship.

China and the US can prosper together. Geopolitics, on the other hand, is inherently a zero-sum game. These two forces used to balance each other. No longer. I worry a great deal that because we see fragmentation of trade and finance along geopolitical lines, one very important element of balance is being lost. So now economics and geopolitics are both areas of conflict rather than one being an area where potentially countries can cooperate together, which creates an offsetting force that can counterbalance the force of geopolitics. So why do you grateful that we are moving to a much more dangerous world in many respects because firms think that they are reducing danger. And this touches upon the issue that you brought up more directly here, which is about financial fragmentation as well.

So, if you think about technology, which is certainly making us much more efficient in many ways, which is leading to much more efficient domestic international payments, reducing the frictions for both international trade and finance, one can see many possibilities there for rich countries potentially getting richer. For low-income countries, less developed countries with underdeveloped financial systems having an opportunity to generate a level playing field. That's not what we are seeing yet again. What we are seeing at one level is even more concentration and a lot of low-income countries essentially being left out. And when we think about these broader forces, not just technology, but globalization, my real concern is not so much about the Chinas, the Americas, the Indias of the world. It is for the low-income countries that have not yet integrated into global trade and finance, that have not yet seen any of the fruits of globalization.

And now they're opening up and growing up in a world where many barriers are being put up by governments. We are seeing increasing parochialism. In the way countries are approaching the entire aspect of globalization and where even technology might turn out to be an area where, rather than creating a level playing field, we might see a large number of countries being left out. So, I think there is much to be looked for in terms of promise from the new technologies. There is certainly some aspect of safety that is being promoted, but I worry that deep down we are moving to a world where this fragmentation could lead us to even more dangers and a lot of marginalization.

QURESHI: Yeah. Thanks. I come back to explore on some of the points that you touched on. So, let's now move from the challenges that we have been discussing to focus a bit more on policies, how the institutional and policy framework has been responding to these challenges or needs to respond. So, I start with you, Laura, again. One important policy development that we have seen is the resurgence of industrial policy. And you touched on that earlier, but I would like to come back to it because of its current salience.

TYSON: Sure, sure, sure.

QURESHI: Now, industrial policy does not have to be protectionist, but it is increasingly being deployed in protectionist ways as a tool of economic nationalism. And this is happening also in countries that for long have been the bastions of a new liberal philosophy of free market and open and nondiscriminatory multilateralism, including and notably in the United States, as reflected in the in the US policy framing labeled as the new Washington Consensus. President Bush referred to that. And this is happening particularly in high tech industries. Yes, you mentioned that. And an industry is considered, quote unquote, strategic.

TYSON: Yes.

QURESHI: How do you see this policy dynamic and its implications for the global economy?

TYSON: Okay. I think that they are very related to what I talked about earlier in the sense that the US prided itself on being the technological leader sort of in all new technologies. We were the innovators, and the innovators were then become, you know, fed through our entire economy and fed through the global economy. And I think we are very concerned that we are no longer have that lead. So, I mentioned that. That's number one. Number two, let's take semiconductors. I started on industrial policy in semiconductors more than 40 years ago. And let's think about did industrial policy in other nations, in particular Korea, affect what happened to the Korean semiconductor industry? So, the US put some anti-dumping stuff against Japan. Korea had a very successful, focused industrial policy to build they're essentially the second major supplier now. And by most people's estimates, Samsung is within touching distance of TSMC.

So, the structure of that industry was affected by industrial policy. TSMC also grew up under industrial policy, active industrial policy in Taiwan and Samsung, active industrial policy in Korea. And semiconductors are considered to be like oil. They are in everything with massive national security implications as well massive military applications. So, what should the US do? Well, you said, my God, we actually have to have industrial policy to build up our own semiconductor industry. Now what happened to the US while Taiwan was building assets and Korea was building it and China was starting to build, that's what happened in the US was we have a business-driven system, it's profit driven system. The US semiconductor Intel basically closed down its fab capabilities. There was no building of fab capabilities in the United States.

Basically, what the US focused on was design, where we'll just do design. And we will outsource all the production of semiconductors to some other location, mainly when it's really front edge to TSMC. One place. So, if you want to talk about resilience risks or geography risks or geopolitical risks, it's in one place. If that place fell into the ocean tomorrow, I am telling you the global economy would come to a standstill, come to a standstill. Okay. So, we had a system where the private businesses responding to private motives, profit motives to quarterly reports, to all the rest, did the right thing for the semiconductor industry, for the United States. Was it the right thing for the semiconductor? Certain assets? No, it was not. It was not. And so now you have industrial policy coming to say to the firms, to Samsung, to TSMC, to Intel, to the new one that does everything. Nvidia.

GONZÁLEZ: Nvidia, Nvidia.

TYSON: Okay, we okay. We're going to work with you. We will. We will partner with you. We will give you tax credits. We will give you subsidies. We will. We will partner with you to co-invest. So, we will have a national strong semiconductor industry. What's the matter with that? That that strikes me is actually a perfectly sensible response. So now the danger is that. So that fits into Jake Sullivan's small yard high fence. That is, he says, okay, in certain sectors, we have to do this. We have to have industrial policy. We cannot allow other nations to shape and structure the global economy. We have to do it ourselves. Okay. So, but now the question is how many sectors are we going to put in there?

So here is a danger. So, Nippon Steel wants to buy US Steel and the US both Trump as a candidate and Harris as a candidate are saying no national security risks there, no national security risk to this. Actually, the national security risks, if we keep out the competitive capabilities of Nippon Steel to make U.S. Steel a more competitive producer. That's the so the danger of industrial policies, we're going to get all sorts of things in there and a lot of it is going to be driven by employment. How many US workers are employed? How many US labor, labor union workers are employed? You know, industrial policy has never worked when that has been the goal. Every time industrial policy has been used just to protect a US job, it's led to very high costs for that one job and not many jobs and not many jobs. So, I really think that is a mistake.

Now, let me finally just go to resilience. I personally have been writing lately about how think about industrial policy, think about the national goal. What's the national goal? Forgot the company goal kind of company goal, national goal. It's to have competitive markets. Okay, well, TSMC is pretty much the sole supplier with Samsung, so maybe we want some competition in high end semiconductors. China is basically way far ahead in things like batteries, windmills, you know, solar, all of those things scale economies, they drove it down. Do we want them to have the major a monopoly, a quasi-monopoly position in those products? Maybe not, in which case that's the argument for industrial policy, is to create more competition.

The argument for industrial policy is to create more resilience, so you don't have supply concentrations just in a few parts of the world. You simply don't. Then I get to industrial policy is for security, and there you have to begin to think about the security aspects of the product. I mean, they become a particular kind of product because of military security and national security. So, I sort of say, okay, well, let's think about increased competition, increased resilience, worry about security. I'm just worry about adequate supply. So, create more supply. And also, policy is going to create more supply. We're going to have more semiconductors in the world. We're going to add. And what's wrong with that? We're going to have more climate technology and climate production in the world, and it can go that less expensive process to Costa Rica and other places. I think industrial policy can be pursued in a market creating market competition way, and you have to be very careful not to do it in a protectionist way. And I just use it as my little example. So let me stop.

QURESHI: Thank you, Laura. Industrial policy is a topic that always raises passion on both sides of the debate. So, I know. Go ahead. Come back to WTO. WTO is a particularly important multilateral institution underpinning a rules based international order, but it is facing challenges of relevance and effectiveness just at a time when its role should be critical. With protectionism on the rise with new issues, some say it's facing an existential crisis. Much of the action currently on trade matters, including issues relating to the interface between trade and digital technologies and AI, seems to be taking place outside the framework of the WTO at regional plurilateral, bilateral or even unilateral levels. And there's a role for discussions at all of these levels as you touched on earlier. But how can how can WTO regain its due role in the current context? Or can it?

GONZÁLEZ: So, you know, when the WTO was created back in 1994, the historic the down of the WTO described the creation of this new global framework as an opportunity, an opportunity basically to drive, to unlock trade, to drive economic growth, to promote sustainable development and to foster global cooperation. So, 30 years later and fast forward to today and I think that the WTO is still crucial in helping nations to tap into new offer opportunities by trade growth. Second, to address some of the global challenges such as climate change, and third, also to de-escalate trade tensions. Now, in order to do this, there are some important poll measures that need to be taken. First, I think, is to reclaim the role of trade policy as a driver for growth. And I'll talk on it a bit. Add to that. The second one is to recalibrate a bit national security concerns. And I will also come to this. And the third point is a tangible commitment to update the WTO rulebook so that it aligns better with the realities of today. So let me say a quick word on each of these points.

First, you know, in today's world, trade policy cannot too often be used to achieve domestic goals, including some of which may be very commendable. And it is, you know, the effectiveness of using tariffs, subsidies and other trade policy instruments to achieve geopolitical or climate or technological supremacy goals is at best mixed. It's also or in my mind, one thing is clear as well, which is that making trade more difficult does not. Make it less costly. And it is often the consumers, especially the most vulnerable ones, that end up paying the price. And also, evidence confirms that those on the restrict on the other side of these restrictive trade measures will not sit idle. Right.

And there would be tit for tat measures that may rapidly and so leading to trade conflicts and escalation right now. Over the past 30 years, that trade has consistently driven income growth, including in many developing countries. But trade uncertainty and tensions have dampened the expansion of commerce in recent years. So global trade growth in 2024 is projected to be well below average rates in the decades preceding the time of the pandemic. So, I believe there's a role for policymakers in reclaiming the role of trade policy as a driver of economic growth, starting by fully utilizing the WTO to safeguard openness and certainty in the trading system, because this is a very important function of the trading system providing certainty which is which is critical.

Now, the second point that I mentioned is if, you know, rebalancing national security, the entry, of course, national security and the increased threats implicit in excessive concentration of production or in certain disruptive technologies that have the potential for dual use are a legitimate concern for government. That's clear. But there is also a risk that increasingly citing national security risks, may distort trade and create trade tensions. There was a recent article in that in Foreign Affairs by Professor Daniel Drezner. And he was arguing that the more items that are added to the national security basket, the harder it becomes for policy makers to focus on what is truly important in fall in our foreign policy, adding that a right sizing, quote unquote by national security conference is needed.

This, in turn, in my view, could ease the way to also fostering greater transparency and an increased understanding of the rationale and merits of using trade measures driven by security concerns. And the third point that I wanted to make was the need to reform the WTO. And I think that reform is already happening, But I think that reform is particularly important in three areas. One is to strengthen the disciplines that address trade policy, distortive practices and policies such as subsidies. I think this is very important and this may even, you know, imply considering whether special rules may be needed to manage the specificities of different economic systems.

TYSON: Yes.

TYSON: So that's one effect. And one is to bring greater flexibility to the way in which the WTO works by facilitating negotiations among group of countries through plurilateral talks. And here, for instance, I note that Korea and Chile have been co-leading the negotiation of an investment facilitation agreement in the WTO with over 120 members that are part of it. And this is a great example of what a platform can refer to. And the third area where I think WTO reform is needed is promoting trade initiatives that are growth enhancing. And I think this is particularly relevant for developing countries by supporting green, digital and inclusive trade. And last but not least, it's important for greater certainty and predictability in international trade that the WTO dispute settlement system is restored to full functionality. So, this is, I think, where we are and I have to apologize myself with this, because in this crazy week, I have to run to run to another meeting. But I just wanted to say this has been a great conversation and agree with everything very much.

TYSON: And agree with everything.

GONZÁLEZ: Thank you.

QURESHI: Thank you.

GONZÁLEZ: Thank you. Thank you very much. Thank you. Thank you. Thank you.

QURESHI: Thank you. Thank you. Thank you both for joining us and sharing your thoughts. Eswar. So, there is rapid change in financial markets from financial globalization and new financial technologies. But the international or the institutional framework regulatory policy framework governing global finance appears to be slow, appears to be lagging in in responding to the change, to the evolving dynamics. So. Faced with the new global financial dynamics, what are the key areas where, in your view, where the. The international, the global financial governance and regulatory frameworks need to adapt or be strengthened? So, there is rapid change. But in terms of the institutional and policy response, there seems to be a mismatch. What are your views on that?

PRASAD: If one thinks about the technological aspects that have helped us get around many of the frictions that beset international finance, we are seeing a lot of progress. International payments. You know, for anybody who has tried to contact them, continue to be very slow, inefficient, expensive. This affects exporters, importers. It affects economic migrants sending remittances back to their home countries and those who seem to be most effective at getting around this country. And so really, people who seem to be engaging in more speculative types of flows. So, what we might think of is real flows associated with things like foreign direct investment, trade, credit and so on. We've seen less progress, but I think technology is helping us there. If you think about payments, for instance, we've seen very simple mobile phone-based technologies have transformative effects within countries, but they're also affecting payments across countries, obviously cryptocurrency related technologies, but even very basic technologies that hook up domestic digital payment systems through digital conduits, creating, you know, a much more friction free world.

Now the question is whether these reductions and frictions are going to be well fed, enhancing or not. And at one level, as I mentioned, for economic migrants and the many countries that rely on remittance flows, this is certainly a very advantages, but it also means much more volatility in terms of capital flows and therefore exchange rates, which is a real problem for many emerging market countries and especially for low-income countries. So, we need to find ways to, in a sense, govern the international financial system in a way that we get some of these benefits that come from technology and from the new practices. But while reducing the risks and that's complicated. It's complicated because we do have a system in place, but it's one where the legitimacy as well as the effectiveness do seem to be eroded by the fact that many of the constituents feel that their interests are not being served and that largely the interests of the larger players are being served.

So, the question is whether one can move from where we are right now to a system that works better is also more legitimate. And the difficulty, of course, is that, again, this inevitably involves zero sum games. If you think about the institutions where you and I used to work at Zaire, the IMF and the World Bank, you know, change has been glacial because if one thinks about influence within these institutions, it is a zero-sum game. And the old guard, the advanced Western economies don't want to give up their power, which they need to. If the new economic arising economic powers need to get their share. So, what is the response that we see from the rising powers? Essentially, they're going off and setting up their own institutions. We see the Asian Infrastructure Investment Bank and the BRICs new development bank and an alternative order emerging. Now, one might argue that actually as economists, we think the competition is a good thing.

If competition can be viewed as an effective way of improving standards, of getting to a better place in terms of governance, maybe that's not such a bad thing. So, we could have competing structures that caused both of them to raise their standards. But I worry again that we may be leading to a world of more fragmentation where rather than having one set of rules that everybody plays by and lot, I referred to this earlier, we might see countries picking and choosing what rules they might play by. And to be fair, the US has been equally complicit in this. If you think about the WTO dispute settlement mechanism that horrible referred to, if you think about the US approach to the International

Court of Justice, the US essentially takes an ala carte approach to the way it engages with the international institutions.

So, we're in a very complicated sport right now where there is a big shift in the economic balance of power. But in terms of governance, it doesn't look like our existing institutions have been up to this. I've actually been working on a book on a new on the new global economic and financial order, and I thought, you know, I could cast some hope and light on this, but each time I write a chapter and think about the forces that could lead us towards stability, it ends up. Leading towards instability. So, I'm in a very, very dark place right now, which is why I have this very negative view maybe in the last chapter, which is going to be a struggle to write, I will finally leave the reader with some hope. But as of now, I see much more despair than hope.

QURESHI: Yeah, yeah, yeah. We have time for a couple of more questions before we invite questions from the floor. So, I think just picking up on that, there is today what we may call the paradox of multilateralism. I mean, on the one hand, the world faces issues that you've been pointing to that are crying out for greater international cooperation from the regulation of new technologies to trade policies to global finance, to climate transition. On the other hand, international cooperation has become much more difficult. And some say there's a crisis of multilateralism. So how do you see the challenge of reviving multilateralism amid the tensions that are at play in the world today? Either of you would take up that question. This is not addressed to anyone in particular, but.

TYSON: I guess I'm going to go back to this whole notion, the multilateral system we all talk about as the thing that we have our rules and whether it's in the financial markets or in the trade arrangements, we have rules and we have institutions around those rules. But there are rules. And it's not at all I mean, I guess I would go to what do we think the emerging superpower here wants in terms of rules? I'm not at all convinced China wants the same set of rules. So, I'm not sure we're going to we're not going to get back to the multilateral system with rules that we created when we were the dominant, perhaps only power in the United States. It's not going to happen. So, I think we need to think about, well, what rules would we like and what rules would China like? And can we kind of get the world together to negotiate these rules? I don't know the answer.

And I will go to a question that obviously and that's the role of the dollar. That is, we want the US to have the role of the dollar is just a wonderful thing for the United States. China doesn't really want it over time. So what multilateral system are we likely to move to? I don't know the answer to that. Now, I'm going to say on the positive note right now, and even China is involved here, the central banks of the world are pretty good at coordinating with one another. They're pretty good at discussing issues one with one another. They've been making amazing progress on things related to climate. For example, they are saying to they recognize that climate risk is a risk to financial market stability, and they are all working with the banks. They regulate on that. So, there's one area where I kind of think the central bankers are still on the same wavelength, but I don't know. What do you think? That's optimism. There's pessimism and optimism in my comment.

QURESHI: I think on that topic, role of the dollar you could speak for.

TYSON: I know. I know. I know. I know. So, I But I think it should have that on the table.

QURESHI: That's where you would like to.

PRASAD: So, a lot of your remarks do pertain some optimism. Certainly, the fact that there are institutions that seem to be able to transcend very narrow national interests, the central banks is certainly a positive development. But I worry a great deal about the very expanded role that central banks are taking on. In many of the countries that we speak of. The central banks are the only institutions that have a lot of trust, and the public has in them that take on a lot of functions beyond monetary policy, including, as you mentioned, climate change. And now if we are counting on central banks as well, and not just to deal with the deficiencies of existing institutions domestically, but also to deal with international coordination on a variety of issues, including perhaps climate change. That is very worrying.

But in the seeds of what you said, there are some positives. If you think about the aspect of climate change, it does look like the US and China have been able to put aside the areas where there is some conflict, including increasingly economics and trade, to focus on that one issue. But there we have a different element. Of conflict arising with other middle powers like India, feeling that they're being asked to carry too much of a burden in terms of mitigating the effects of climate change while the disparities between them and the richer economies or even the upper middle-income economies, which China is soon becoming, are still very large. So, there isn't an easy way at this stage to reconcile these very conflicting objectives. But ultimately, as we think about the fact that the world is becoming more connected, whether we like it or not, in many ways, I think we're going to have to tackle this, and I hope there will be a follow of volume of policy solutions to all of the Issues we have brought up.

QURESHI: So, one last question. Maybe asked for the new global dynamics that you've been discussing. Do they call for new global governance mechanisms? The need for action in specific policy and regulatory areas is relatively clear, not so clear in some areas, but there's an agenda. Right. But does it the changing world that we are seeing, does it call for rethinking global governance, including new institutions? Or is it largely a matter of empowering and mobilizing existing institutions?

PRASAD: The question is whether existing institutions are going to be flexible enough to allow for an evolution of the roles and also an evolution that is consistent with the new power structures in the world. Because my sense is that the sort of institutions we've worked for have had an erosion of their legitimacy because there is a sense that the rules were written for a different time and by a group of powers that, you know, are trying very much to hold on to their ability to define the rules, how they're written, how they're enforced and so on. So, we certainly need change. And, you know, going back to the question of the dollar, you know, we now have a system that the entire world can coordinate on, which at some level is a good thing at times of crisis. For instance, you know, one might argue that I've argued that during the global financial crisis, the world didn't have one currency that everybody could trust and center on.

Things could have been a lot worse because the US was able to the Fed was able to flood the entire world system with liquidity, exactly the sort of liquidity that everybody wanted. So maybe things would have been worse if we had, you know, a welter of currencies and people weren't quite sure what to coordinate on. But having said that, there is much frustration in the world about the centrality of the dollar in the global financial system, and there is a desire to move away. But in order to move away, you need a rival that has a combination of economic strength, deep and liquid financial markets and an institutional structure, including an independent central bank, a system of checks and balances, the rule of law. And nobody else quite seems to be willing to sign on to providing that combination. So, we're sort of stuck in a world that I have characterized as a suboptimal but self-reinforcing equilibrium. Nobody likes the fact that we here, but not if you're here. It's not going to be easy to get out, and people have an incentive in keeping the system as this.

TYSON: Yeah.

QURESHI: Thank you. So, Laura, unless you have something to add to that, we can open it up and invite from the floor. So, so please raise your hand if you would like to us. And they will bring a handheld microphone. Please identify yourself and your affiliation and. And please keep your questions short so we can get as many as we can.

TYSON: Yes.

AUDIENCE MEMBER: Hi, I'm Raymond Masson Byrd. I'm a junior political science student at the University of the District of Columbia with a concentration in global studies. So, my question is for Mr. Starr. You spoke about fragmentation. And I was wondering what fragmentation would look like in the global supply chain. Like, how would that affect the way that it operates?

QURESHI: Yeah, we can take another question there.

AUDIENCE MEMBER: So, can you hear me? Okay. My name is Rachel Moustakas. I'm a sophomore student from Georgetown University. My question is to both speakers. It's a bit more of a theoretical or I guess a cultural one. One of the greatest resistances to globalization comes from nationalism, specifically postcolonial nationalism. We say globalization and re-globalization and many nations here framework for violating sovereignty. And they remember the mandate system under the league or some such.

Do you believe that in furthering globalization, nationalism is an enemy to be done away with or an ally that can strengthen a sort of culture of internationalism? And in any case, how can we approach it institutionally? Thank you.

QURESHI: So, we will come back to the next round. So, let's take these two questions. But short, short answers. Maybe, Laura, you can take the second question. And Eswar, the first.

TYSON: So, I see them in conflict because I think nationalism starts with the notion of the benefits and costs to within nationally defined borders and citizens within those borders. Whereas an international approach is looking at the entire system, countries around the system and trying to figure out when outcomes now not everybody win. Win is complicated because even within each nation not everyone wins. But if you believe and I do that over the period of globalization, the benefits to the global system were significantly large, that there was a sharing of those benefits around the world. I mean, you know, the developed growth throughout the world picked up growth throughout the world.

The growth rates started to converge, the inequality between countries started to diverge. The inflation rate started to come down through the supply chains. And actually, that was good for the world. But none of that that was all seen from the international perspective. And then as nations began to say, well, I'm losing my employment, I'm losing my voters, I mean, whatever they said, well, yeah, it may have been beneficial for the system, but it wasn't beneficial for us. So, I think they're in conflict.

PRASAD: Fragmentation seems to be showing up as I think maybe Laura and Annabel both mentioned in terms of, you know, trade and financial flows being driven less by macro fundamentals and the sort of things that typically tend to matter for these relationships than geopolitical relationships. So, we see less U.S. investment going into China, more U.S. investment going into countries that seem to be partners of the US. But there are a couple of paradoxes to note here. You know, there is this notion, say, of, you know, Apple investing more in India, but these changes are really at the margin.

Now, what happens at the margin is very important, but the reality is that right now, it's not possible to displace China in the supply chain because there is no country around that can really displace China. But, you know, there is a change at the margin. The second issue, of course, is that globalization, you know, it just like water will find a way. We have seen more Chinese investment going to Mexico and Vietnam. So, the US trade deficit with China has fallen, but the US trade deficit with Mexico and Vietnam is risen and Mexico and Vietnam's trade deficit with China has said is. And so, you will see a rerouting of production. So, you know, businesses are going to find a way. The profit motive is strong enough, like, again, water. It will find a way to find the path of least resistance.

TYSON: And let me can I just say industrial policy, I think the notion is, as I said, competition, it's to create some more potential supply chain nodes so that, you know, basically there'd be a diversification, more competition in supply chains, but supply chains would continue. We're not going to globalize in the sense of move away from supply chains more diversified. I would say.

QURESHI: Take a couple of more questions. There is one there and one there.

AUDIENCE MEMBER: Hello, my name is [inaudible] from Kenya FinTech founder. Thank you very much for the presentation. My question is, so as I listen to all of you speak, I didn't know where to have my head in as coming from Kenya or other Africa. And just kind of something you mentioned where when geopolitics and business are aligned and it's good for the world. But when I look from a Kenyan perspective, it's always been more of geopolitics because of the, you know, the economic contribution of Kenya and other African countries. So, what is the solution to kind of be able to still have the consistent growth? Because given our interest sometimes get or rather, we get bribed into taking a geopolitical position that is not necessarily grounded on what we think or what we feel, but we still get kind of get punished. So, what's the solution for such scenarios where we can still have that economic relationships in regardless of who bribed us to take a position that may not be the interest of the country.

QURESHI: There.

AUDIENCE MEMBER: Thank you. My name is Thomas Curran. I'm here with the Czech Embassy. My question would be to Madame Thyssen. You presented as the motivation of the U.S. policy. You presented it as being maintaining the technological edge. Yet, on the other hand, your preferred mode of operation would be to create more supply, more sources. Of supply. Aren't these two principles fundamentally opposed? Isn't it impossible for the U.S. to maintain technological edge and yet have a plurality of equivalent supply?

QURESHI: Thank you. So, Laura, maybe I'll take that one.

TYSON: So, the way I get around that a little bit is by saying that it is it is this small yard getting around. Okay. We in general, the issue is resilient, competitive, adequate supply. There are lots of things that move across borders like that and supply chains that are critically important when there are security implications. And I'm going to say national security or geopolitical security implications, then I think it's that's where you're going to get a more kind of set of protection policies or policies to keep out the foreign technologies. And that's all. And I think it's a very dangerous situation because the policy makers will want to sort of, you know, put as much as they can in there. Okay. So, but that's the way you do it. You have to really look. Sector by sector, almost product by product to say what is really something where there is a security source and what is something where. That's just a that's a disguise for an employment concern or a political concern or something else. That's what I would say as yes.

PRASAD: So, I don't know. It's an extraordinary challenge right now for the middle countries because we see that it's geopolitics that is fraying but also trade and economic for this spring. And the major powers are eager for countries to choose sides. And it's potentially a very fraught issue for smaller countries to choose sides. If you think about many countries in Asia, Africa, Latin America, for whom China is a very important export market. But many of these are countries that don't necessarily want to align themselves with China. So, it's become, you know, a Faustian bargain that you have to buy into. And what level you buy into is an extraordinary change.

I think it's going to be a very complicated landscape, and especially because, as we were discussing earlier, the world is becoming more fragmented, and the consequences of those fragmented fragmentation are really going to fall most heavily on lower income countries that have still not fully integrated into the world economy. So, I think there is a fair bit to worry about. We should let Laura finish up on a high note.

QURESHI: If. You have something to it.

TYSON: No, no, no. I think that's right. Know, I can’t end up on a high note.

QURESHI: No, all right.

TYSON: But maybe let's maybe we'll get a high note answer to this question.

QURESHI: Question, please.

AUDIENCE MEMBER: My name is Darian Hoffer. Hops in. I'm a writer, so I'm thinking about multilateral agreement like, and I hope I'm pronouncing this the right way. US, U.S., Korea, South Korea and Japan excluding China, right. Based on and this Is just an open-ended review for the panel. Sorry. Based on what you two have seen, is there any indication that South Korea and Japan are aligned in what as far as technology policy with the U.S., as far as how they want to regulate, if at all, and what they want to do?

TYSON: Now, I would personally say it's good news for the U.S. that its strong allies, Korea and Japan, are basically coordinating, coordinating with us, coordinating with one another. I think this is good news. It's a kind of I do think there is going to be more and more of these regional agreements or these agreements among a limited number of nations. And I do also agree that that has real dangers for countries that are that aren't in the agreements. Right. But I do think from the U.S. point of view and from the from the Asia point of view, collaboration or coordination on India, Korea, China, I mean, Korea and makes sense. Makes a lot of sense. Makes a lot of sense.

You know, that was what in a sense and this I will end on a negative note. Again, that's what the U.S. government was trying to move forward with, a plurilateral agreement which was with to exclude China. And that had a lot of players in it. And we were leading the effort, and it was very complex negotiations, and it was a really quite a good agreement. And then the U.S. Congress said five. We're not we're not we're not we don't believe in free trade agreements because it hurt us jobs. That's what they said.

QURESHI: So, okay. Well, I'll end on a positive note. This has been a very interesting and great stimulating discussion. And I would like to thank our panelists for their insightful and illuminating answers. As you unpacked the new global dynamics that we face, the world faces.

TYSON: You both were ahead of these issues. I want to say from the time that you started working on this, I mean, just don't you say the literature is just fun, right? Yeah. So. So you were ahead.

QURESHI: Well, thank you for your contribution, the two chapters that you contributed. And I would also like to thank all of the participants, both joining in person here and online. And so, thank you very much. Recording of this event will be posted on the Brookings website and also available on YouTube. So, with that, we conclude the event. And thanks again to all of you.

TYSON: Great. Thank you.