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GEOPOLITICAL SHIFTS

Aaditya Mattoo: We are precisely one hour late. Would you come up, please, the panelists? Professor Shin-wha Lee of Korea University. Professor Saravana Ravindran of the National University of Singapore. And my old friend, Professor Heiwai Tang from Hong Kong University. This is the most efficient introduction that I could do. We've heard a masterful talk by somebody who's been at the heart of important developments for nearly half a century. The words I'm going to say are very brief, but I think we should reflect for a moment that in a conference on development in the time of populism, we have now a session on geopolitical shifts. What is the relationship between populism and geopolitics? I think one good place to start is to think of Dani Rodrik's trilemma, that globalization, democracy, and national sovereignty cannot live happily together. The question is why. If you think about it, the flows of trade, capital, and ideas inevitably lead to catch up by less developed countries, a process of economic convergence. That process of economic convergence has an effect on leading countries. In effect, there is a sense that trade or globalization are regressive, risky, and rivalrous.

Regressive because when low-income countries catch up with a high-income country, there is pain for the working class. Risky because globalization creates dependence on markets, on critical inputs. Rivalrous, precisely because economic development and dominance threaten political dominance, especially when that economic dominance is in strategic industries. This has played out before. Bob Zoellick gave a masterful history. But if you look at the 19th century, which was the era of the Pax Britannica, there was a period of free-trade imperialism, where Britain was the pillar of the multilateral trading system. Its share and world trade was 20%. The wobble came when Germany and the United States caught up, when the United Kingdom share fell below 10%, and that's when they instituted imperial preferences. After a period of free trade. In the 20th century, as Bob Zoellick described, the United States share was more than 20% of world trade. It assumed the responsibility, the atlas of the multilateral trading system. The first wobble, Japan threatened to catch up, and ultimately in 2008, when its share fell below 10%, it's uncanny, these numbers play out over centuries, and China's share has increased above GDP. A key question is, just as you had chaos between the two wars, are we inevitably headed for a period of friction and chaos that will be costly for development by threatening the openness and predictability of flows, of trade, of capital, and ideas?

In that context, we now have three brilliant people with three brilliant, very different papers. We'll begin with Professor Saravana, who will talk about flows not of goods and services, but of people. I think that helps us to think about why this changing environment might affect this powerful way of poor people catching up with the rich, and what it might also mean for the battle, for dominance in finance rights, which is the medium through which the migrant remits money. Then we'll turn to Professor Heiwai Tang, who will take a closer look at what is happening in trade, the new protectionism, and also the new industrial policy, which raises the question of whether rivalry is based just on catch-up, or is it also a consequence of the perceived use of unfair methods of state protection and state support? Finally, and that I hope we will end on an optimistic note, when Professor Shin-wha will tell us that perhaps chaos is not inevitable if cooperation is innovative, and it can take many different forms. To start us off, Professor Ravindran.

Saravana Ravindran: Good morning, and a very warm welcome to all. I'm Saravana at the Lee Kuan Yew School of Public Policy at the National University of Singapore. Thank you for the very kind introduction. Today, I'll be talking about a decade of work now on migration, drawing on insights from the impacts of mobile money for migrant families in Bangladesh. We've been doing this work in South Asia, but in keeping with the theme of the session, I'll also try to draw some insights for geopolitics. I am a development applied microeconomist, but I'll try to draw some insights at the end. How I want to structure my talk is, after giving you a quick and broad motivation, dive into this intervention that we've been doing in Bangladesh, and now we're scaling up across South Asia, look

at the short and long-run impacts of this, and then zoom out to think about broader insights for mobile money, remittances, and migration. Now, many of you will know that migration has long been a strategy to raise household income, with migrants moving to find higher pay. Crucial, though, is how then that can be shared with their family using remittances. Now, new money transfer technologies open the possibility to reduce rural poverty by coupling migration with the efficient movement of this money back home.

Now, we started doing this work in Bangladesh back in 2014, 2015. We did this because Bangladesh is a large source of internal as well as international migration. That's one of the highest levels of international remittances as well in the world. There are strong similarities, and I'll point out differences, but there are these analogs between internal migration as well as international migration. I think there are a lot of important insights that can be gained, even if the setting that we are looking at is one where you're looking at domestic, rural, urban migration. I've been working with the ADB on the Asia Economic Integration Report, thinking about migration and remittances. This is a chart from their report this year, which is thinking about remittance flows in the world, but also in Asia and Pacific. Two things stand out. First is the dramatic rise in remittance flows across the world over the last two or three decades. Second, you have the growing share of this that's being remitted to Asia and the Pacific. In recent years, it has hovered around 40, 45%, but you see this dramatic rise, and this is something to keep in mind. Important to this is thinking about the price of remittances or the cost of remitting money.

There are various indicators that one can look at to think about: "If we are to remit 200 dollars, for example, what's the average cost of this?" We see that there are declines across regions and over time. However, these still remain above the SDG target of 3% across many countries today. In the figure on the right, however, when we break this down by service provider and the payment instrument, what seems to be very striking is that mobile money is one of the cheapest ways to remit. Now, I'm going to use the term mobile money and mobile banking somewhat interchangeably, but just to set ideas straight, this is mobile money, technically, is this software that's loaded onto SIM cards that allow you to make these financial transactions with your phone. In certain contexts, that has to then also be linked with a bank account, and that's the mobile banking aspect of it. I'll use these terms somewhat interchangeably today. What I want to do next is talk about an intervention that we have been doing for about a decade. We started this work back in 2014, 2015, with a sample of more than 800 household migrant pairs in northwest Bangladesh.

This is in Gaibandha, in the Rangpur division. These are the rural families that are typically sending migrants to Dhaka. What we're doing is we're tracking these household migrant pairs over time. What we did in a mobile money intervention is to really try and address what are some of the main barriers to the adoption of mobile money in this context. Through a randomized experiment, we selected half of the sample to receive about a 30 to 45 minute training on how to sign up for and use this mobile money service. We're working with bKash, one of the biggest players in Bangladesh. What we covered are basic steps and protocols of bKash use. We provided practical hands-on experience. To build some familiarity with this, let's send money back and forth a few times to establish a degree of comfort. Very importantly, at the time, these USSD menus were primarily in English. At the time that we did this study, smartphones were not as prevalent in these areas. A lot of this was handholding and teaching these families how to navigate these English menus, and we provided this training to families. We felt that these are some of the key barriers to the adoption of mobile money in this setting.

Now, what we're then going to do is track these families over time and look at these impacts. I want to start with what we think of as the very first-stage impacts on active account use. What we are doing is not just looking at the adoption of these accounts in mobile banking, but we're also tracking active account use. Whether they are going in and making transactions, be it depositing money in these accounts, withdrawing, sending money, and so on. What we find is a dramatic increase in the

active use of these accounts one year after the intervention. On a control base of about 21, 22%, we find 47, 48% point increases in use of these accounts. In our view, a light touch intervention, very cost-effective, costing about US\$12, leading to these very dramatic impacts one year later. You can see that the adoption and active use of this is very tightly linked. The numbers are all very similar because one of the main use cases of this is for remittances. Of course, there are a number of other things that you can do with this, and we find impacts along a number of dimensions, but the remittance use case is an important one in this sample that we are working with, a migrant sample.

Next, I want to think about the impacts of this. One year on, what we are seeing on poverty rates for the rural families is very clear when we just look at the distribution. Just plotting the distributions of what rural per capita daily expenditures look like for the treatment and control groups, we see a clear rightward shift of the distribution. I have the vertical line in red, which is the poverty line for rural Bangladesh at the time. And across various metrics of poverty rates, squared poverty gap, and so on, we find reductions in poverty for the treatment group. We see this as an immediate, very short-run impact on poverty. I won't get into this in the interest of time, but we find impacts along a whole host of dimensions as well. When we think about broader financial inclusion, we are tracking things like borrowing and saving and insurance mechanisms. People in the treatment group are less likely to report a need to borrow. They are more likely to save because bKash offers an avenue to do so. When we think about seasonal deprivation periods of Monga, as they call it in this context, they're less likely to report that this is a problem for them. So very positive impacts in these dimensions.

When we look at measures of investments, some of these are very short term. We are looking and we are seeing impacts on moves towards self-employment, further induced migration in the short run. This is all very encouraging. But when we step back and think about hypotheses and what the impacts of this might look like in the longer run, we said: "I think asset accumulation is important to look at, but that's something that we may not find impacts in the short run." What we did is we went back almost eight, nine years later to this very same sample. We followed up with them to see what's been happening. There was no additional intervention. We went back to take a look at what's happening, and we focused on assets. We see that while we don't find large improvements for non-productive assets, we find significant increases in the productive asset value. These are investments in agricultural technologies, tractors, and so on. We find significant increases there, as well as land that's being used for these purposes. This is also coming in a context of widespread catch-up by the control group.

Today, when we look at the sample, more than 70% of them have adopted and are using these mobile money technologies. Despite that, an intervention that was run eight years ago by boosting the adoption and use of mobile money has these very lasting impacts on assets. This is something that we hypothesized, but in the very short run, we were not able to detect. We wanted to go back many years later to look at this. The takeaway then is that these sorts of remittance and mobile money technologies have the potential to have these very substantive impacts, both in the short and long run, across a host of dimensions, be it in terms of poverty reduction, financial inclusion, asset accumulation, and we look across a number of other dimensions as well. Now, I want to then step back and think about the implications of all this work more broadly, and let me start with the implications for thinking about international remittances. Now, the context that we looked at was focusing on internal migration, where the main player is bKash, the other players as well, but that's the provider that we were working with. Now, when we think about international remittances, interoperability becomes really, really important.

I'm talking about platform interoperability. There are some examples of success in this area. I'll draw on an example from my country, Singapore, where efforts have been made to make Singapore's PayNow system interoperable to offer real-time payments to neighboring countries in

Malaysia, Thailand, and as well as India's UPI. But I think a lot more work is needed in this space. I think there's a role for bilateral agreements and, as we heard yesterday, a role for regional bodies. Selena yesterday talked about how ASEAN launched the Digital Economy Framework Agreement in 2023. One of the key areas in this agreement was to think about these bilateral and multilateral movements of money. There are a whole host of issues to think about. These range from governance to... It's beyond the technology of the money transfer. We want to be thinking about governance, regulation, dispute resolution, and a whole host of things, including privacy and data security. These are things that are important, and I think they are a role to be played by such organizations in coordinating them. The global partnership for financial inclusion is also making strides in terms of the G20 countries and pushing the agenda forward for thinking about the plan for remittances more broadly.

Those are some opportunities, but I also want to highlight some headwinds and challenges in this space because, as I've shown you, the price of remittance and the cost of remitting is extremely important. In our work, we also find that elasticities to such prices can be high. Governments can introduce frictions to discourage remittances, international remittances, for political and geopolitical reasons. Most recently, the big, beautiful bill here in the US has introduced what was initially proposed to be a 5% tax on international remittances, negotiated down to 3.5%, and I think eventually 1%. But these are examples of how governments can also step in to, for various reasons, try and discourage remittance flows. I think what's interesting is also, as we have this demand for remittances and mobile money adoption and use, countries are seeing this as a digital asset. This can be used by countries to exert influence. bKash, the example that I just talked about, and the financial operator of Alipay has a 20% stake in this. This was acquired back in 2018. We know that more broadly, China is also investing in digital infrastructure across Asia as part of its broader digital Silk Road. In Bangladesh alone, the hundreds of millions of dollars that China is investing through Huawei and other means as part of an MOU that was signed back in 2015.

Now, I also wanted to step back and think about the implications of this work for international migration. We know that geopolitical and trade shocks can really reshape economic opportunities and migration patterns. I think the one that's been in the news most lately is the impact of the US tariffs on Bangladesh. We know that the garments sector is hugely important for Bangladesh, and the implications of the 35% tariff on Bangladeshi goods has really started affecting the government sector as well as other industries in Bangladesh. This has a whole host of consequences for development in the country. We know that women are primarily employed in these sectors, so there's implications for women's empowerment, but also income and jobs and livelihoods in the country. Now, at the same time, we know that other actors are investing heavily in these regions. Going back to Bangladesh, for example, under China's Belt and Road initiatives, there are new urban hubs being built in Chittagong and Khulna, coinciding with the two busiest ports in Bangladesh. As we see, for example, garment jobs being affected in the capital city in Dhaka, there are opportunities in other regions in Bangladesh. That's already starting to change the pattern of rural urban migration flows within the country.

That's internal migration, but there's also implications for international migration because we know a good number of migrants who look to India, for example, from Bangladesh for jobs. But in times of crisis like this, that can prove to come to a flash point at the border. The destruction and creation of such economic opportunities has these profound implications for both internal domestic rural urban migration, but also international migration. I just want to end with some very broad implications for them, thinking about development practice. I go back to Danny's talk yesterday where I think he made an interesting point about how a large focus of development practice has traditionally been thinking about capacity building, about productivity, and strengthening the supply side of economies. But maybe we should also think about the demand side. This, I think, dovetails very nicely into the role to be played by migration and remittances. I've already talked about how mobile money can help very swiftly and cheaply migrants remit money home. It provides an

insurance mechanism, so it's not just strengthening their consumption power, but also stabilizing it in times of shocks and crises. But I think there's more work to be done here.

Now, in the interest of time, maybe we can save this for the discussion later. There are broader challenges, of course, for the migrants themselves. We see that in some of our work that we do. It's not all a positive, rosy picture for the migrants themselves. There are costs. But what are the challenges for the households and the families back in these rural areas? But also we want to think about the populations in the migrant receiving destinations. I think this is keeping with the theme of populism, the anger that Danny talked about yesterday. I think there are lots of concerns in the migrant receiving destinations as well, and we need to be cognizant and think about that. I'll stop there. Thank you.

Aaditya Mattoo: Thank you very much, Saravana, for that very nice presentation. Bob Zoellick spoke about trade being like water. If you restrict it in one channel, it flows into another. I think that's also true of trade and migration. Restrictions on trade create greater pressures for migration because you deprive people of economic opportunities in their home countries. Now, turning to trade, Heiwai.

Heiwai Tang: Good morning, everyone. I'm happy to be back. I used to come to the World Bank a lot when I worked and lived in Washington DC before 2019. I took almost an hour to come back to my second home in my opinion. So thank you for having me again. I have around 15 minutes to talk about a set of papers. I was asked to talk about one paper, but I think for this kind of event, it's more fun and hopefully more insightful to talk about a few papers by me and also other people's work on this issue. The theme of the session is about geopolitical shifts, industrial policy, and also trade. Obviously, a lot to cover in 15 minutes. Luckily, Bob has given us a very comprehensive overview of the history of globalization and geopolitics. I'm going to save two or three minutes for the first point, which is about what's going on with the so-called deglobalization. Then I'm going to talk about the new global economic paradigm, starting with Trump 1.0 tariffs on China, mostly since 2018, all the way to Trump 2.0, with tariffs not only on China, but on a lot of countries.

Then I'm going to talk about industrial policy, focusing a bit more on China and how, in my opinion, the new round of industrial policies in China has led to some domestic challenges, but also international conflicts. Last but not least, hopefully I'm out of time, I'm going to speculate about the future of globalization. I may be wrong, and I hope that I will run out of time so that I don't need to make any mistakes. This is really just a graph that everyone knows and is like a graphical summary of what Bob said in his keynote. Basically, we have gone through multiple waves of globalization and deglobalization, you may call it. I would say there are multiple broad reasons for why we started seeing the decline in the ratio between global trade and global GDP. You may blame geopolitics, tariffs, whatsoever. But I think you can also have reasons like aging with older people spending more money on services, as well as the new rung of industrial revolution and innovation that make production more decentralized and less concentrated in a few countries like China. But I would like to point you to basically the four decades before 2008, which is also called the hyperglobalization, called by Arvind Subramanian from the IMF.

Many people have warned about the sustainability of that kind of globalization, which has led to quite a lot of within-country inequality and therefore the support for protectionism. Therefore, I think that this decade of deglobalisation is bad, it is actually more important to think about what has gone wrong with the previous hyperglobalization that led to what we encounter today. But let me just summarize, essentially, a selective summary of what Bob just said half an hour ago. I think in today's world, we are missing the so-called three necessary conditions, as I pointed out in a paper I wrote in 2020 called Globalization in Crisis. If you don't have any of the three, you are not going to have the globalization that we enjoyed before 2008. The first one is you need the technological breakthrough at the time to basically facilitate market integration. Think about communication technologies such as the internet in the '90s or the steam engine that was introduced during the

Industrial Revolution in the 19th century. Today, we talk about technologies everyone has in mind: AI, blockchain, decentralization of production. Those technologies are not necessarily integrating markets or bringing markets closer to each other.

The second necessary condition, in my opinion, is that the leading power all of the time needs to derive enough economic and political interests to promote multilateralism or the operation of multilateral organizations. We have discussed a lot about [how] the current administration of [the] US may not be putting enough effort to promote multilateralism. The second economic power, meaning China, wants to play a more assertive and more proactive role to promote its own version of multilateral organizations such as AIIB and the Belt and Road initiatives. But the eagerness of the second power may lead to unnecessary pressure on the first power or the traditional Western world. Therefore, there's conflict and there's tension between the first and the second economic power. Last but not least, as I've said, inequality has only increased further after COVID, but it has already become not sustainable towards the end of the previous hyper globalization. I may sound a bit pessimistic, but I think if we want to think about new globalization, it will be more digitized, more regionalized, and perhaps more inclusive with smaller countries, possibly playing a larger role due to the so-called China Plus One strategy implemented by a lot of firms, including Chinese companies today.

Perhaps we have been looking in the wrong place when we tried to talk about new globalization because trade economists like to measure trade based on merchandise product trade. But in fact, if you look at surface globalization, it has been progressing pretty well. The growth rate of service trade has declined relative to global GDP, but it is still growing at a stronger rate as compared to merchandise product globalization. Countries like India and Philippines and many others that have compared their advantage in services probably will enjoy a bit more in this new wave of globalization. That concludes my first part. The second part is really about Trump 1.0 from 2016 to 2020 and how US tariffs on China had led to restructuring of supply chains and rerouting of trade away from China to many other countries, in particular in Southeast Asia. This is history, where we are still talking about on average 20% tariffs imposed by the US on China and vice versa. If you look at customs data, it may seem that the US is no longer as important as before as the final destination of Chinese exports. It just ranks number two, but still contributes to around 15% of China's total direct exports.

Replacing [the] US to be the number one destination is ASEAN, but ASEAN is not a destination market. ASEAN is only an intermediary market, helping a lot of Chinese companies to finish their production with the final goal to ship the goods still to the US, which accounted for over 30% of global consumption. This is a graph summarizing what I have done using Asian Development Bank input/output tables. I discovered that before 2017, around 10% of Chinese exports [are] through third parties, such as goods that have been trying to ship and with some value added created in ASEAN and many other places. But after 2020, that ratio has increased to 25%. China's export to the US now had around 25% being created through third parties. Who are they, the usual suspects? Mexico, Vietnam, Taiwan, Canada, Korea. I'm not going to repeat what you know, but let me just remind you about this old paper written by Akamatsu in 1962. This is a well-known The Flying Geese Paradigm. In the past, people talked about pressure from the US government on Japan. Japanese firms since the '80s started to go out. Initially, they went out to invest in ASEAN and other places to expand the production chains, partly because of the rising cost of production in Japan and also the appreciation of the Japanese yen.

But later on, they [are] also subject to the same pressure that Chinese companies are exposed to because the Japanese firms are essentially becoming a threat to American companies. But the consequence, which is good for [the] development of other countries, is that there [are] technology spillovers, there is human capital and capital flows, from Japan to the rest of the world. Today, I would say we live in a world which I would call the Flying Geese Paradigm 2.0. China may not be as developed as Japan back in the days. It is still a middle income country. But if you look at the

Chinese leading companies like Huawei, BYD, Tencent, and whatnot, they are really the technological leaders in their own domains. Therefore, when they go out to invest, not only do they bring capital and human capital to the destinations, but they also bring technologies to those places. David Yang at Harvard and Josh Lerner at the Harvard Business School have recently written a paper showing that many companies in developing countries and also middle income countries actually started to cite a lot more innovations created in China by Chinese companies and universities rather than those innovations coming from the US and other leading universities.

I came from MIT. I'm not saying that those leading universities are not important, but I would say a lot of the innovation coming out from the private sector in China is practical, and appropriate technologies for those who need more developments to catch up. I think I'm running out of time. I did some research looking at stock market performance in 2018. I started writing this paper actually in March 2018. Very sad that the paper was only finally published in 2024. It took us six years to convince the editors of all the journals to be convinced that this is an important topic. What we did is a very easy event study. Around March 22nd, 2018, we looked at what happened to the US listed companies as well as Chinese listed companies' stock prices. Basically, it's a very simple diff and diff. Firms that are more exposed to trade with China tend to suffer more in the stock prices. The effect is long-lasting. It is not only a short term negative shock. Basically, firms that generate more revenue from China or import more intermediate input from China continue to have underperformance three months after the March 22nd Section 301 tariffs.

Of course, now we have data on production networks. There's a data set called Facset, which allows us to basically look at least the company's suppliers and buyers around the world. This is just a snapshot about General Electric and IBM. But when we use the production networks to dig deeper to try to understand the indirect impact of tariffs on those companies that are not directly exposed, but indirectly exposed to tariffs due to the production chain networks, we realize that the impact is actually larger through the indirect channel rather than from the direct exposure to tariffs. Last but not least, from this paper, we realized that the pass-through of tariffs to US customers depends on how substitutable the inputs are. If the US companies can easily buy the same inputs from Mexico and other countries, then the pass-through to consumers is going to be much smaller. This is an old paper. I'm going to talk about what I think about today's China's industrial policy. I believe that Keyu, in the afternoon, is going to talk a lot more about China. There's a new Dani Rodrik as compared to the old Dani Rodrik who started to study industrial policy in 2004.

My reading of the old Dani Rodrik's papers is that industrial policy is supposed to fix market failure, especially information asymmetry. The new Dani Rodrik, with a set of papers that he wrote with co-authors, basically defined industrial policies as government policies that can explicitly target the transformation of the structure of the economic activity in pursuit of some public goal. The keyword of this slide is public goal. So public goals can be about economic issues, it can be about geopolitics, supply chain resilience, climate change, and whatever. Therefore, basically, you can use industrial policy and justify them depending on what goal you have. In the past, we tended to think about industrial policy for economic development, and now it is mostly for non-economic issues, especially when it comes to strategic competition. I'm not going to repeat what you know, but I would like to say China has been doing the same. I was actually asked by Danny Quah to give a talk at the Li Ka new school a year ago. I would say there's an old Dani Rodrik and a new Dani Rodrik. There's also old China's industrial policies and new China's industrial policies.

In the past, if you ask me to define industrial policy, let's say before 2010, it is a set of rules that make sure that city economies in China were given the largest incentive to differentiate themselves through industrialisation and participation in global supply chains. There are always national government guidelines about what city-level governments should do, but the city-level governments are given quite a lot of freedom to differentiate themselves and try to specialize in very specific industrial sectors. I've written a paper with Hiau Looi Kee at the World Bank showing how those

industrial policies, especially through reduction in tariffs and rebates of value-added tax for exporting companies, lead to China's companies moving up the value chain. There are also papers about agglomeration in China, creating quite a lot of productivity spillovers between foreign firms and domestic firms. That was the old China before 2010. What is the new China? A recent paper by Hanming Fang from UPenn and co-authors started to look at how city-level governments are competing among themselves. In the past, as I've said, they have enough room to differentiate from each other. But now, industrial policies in China have become a lot more top-down.

People like to talk about new productive forces. If you want specific examples, think about AI, electric vehicles, new material, batteries, and so on. Basically, city-level governments are all trying to develop the same set of sectors. As a result, not surprisingly, there has been overcompetition because every city government is subsidizing and investing in similar economic activities, and there's a lack of differentiation, as Hanming Fang has shown in a recent working paper at NBER. What is the consequence for China and therefore for the rest of the world? There has been overcapacity due to overcompetition. Prices started to drop. PPI in China has been declining for the last nine months, so therefore there's concern about deflation in China. If there's deflation in China and that cannot be fixed by fiscal or monetary policy, people would be concerned about the so-called loss decade that is going to happen in China, like what it did to Japan in the early '90s. China is still heavily dependent on exports, even though tariffs on Chinese goods have been increasing. But there's no way out because the domestic market is very competitive. I was in Guangdong last week interviewing companies and asked them: "What happened to your exports after the Trump administration put close to 50% of tariffs on average on China's exports?"

Many companies in Guangdong told me they have been trying to redirect the exports from the US to new destinations such as Europe. But there's also quite a lot of effort to basically reorient sales to the domestic market. One company that I talked to basically said they used to derive 80% of revenue from the US and 20% from China. Today, they derive half from the US and half from the Chinese market. But interestingly, the manager who I also interviewed told me that if you look at profit share, it used to be 80% US, 20% China, and today it's still 80% profit from the US and 20% profit from China. What it tells you is that the profit margin for selling goods in China is very small. Therefore, even though the revenue share has been a bit more balanced, the new reality is that the Chinese companies are not doing well. Therefore, many of them are still very dependent on export, and therefore there is a very strong urge for them to invest abroad. My final point to make is, I've been teaching in the business school in Hong Kong. I've been taking a lot of CEOs, mainland Chinese CEOs, to travel around the world.

There's a new slogan in China among the private sector firms, which is to go out. If not, they're going to die. But the problem is going out is not the ultimate solution for overcapacity and therefore potential deflation in China. The ultimate solution, as Bob was alluding to very briefly, is China's economy needs to be rebalanced with more consumption and less investment and less export. That has to be done through effective fiscal policy. If not, this will become not only a problem for China, it will continue to become the source of tension between China and the rest of the world. I think I'm running out of time, so let me stop here, and I will speculate more about the future during the Q&A. Thank you.

Aaditya Mattoo: Thank you very much, Heiwai, for that wide-ranging coverage of interesting developments, the convulsions in the wake of trade frictions. Now, for a more optimistic view of how cooperation may survive, but in a different form. Shin-wha.

Shin-wha Lee: Thank you. Good morning. Well, I would like to join the previous panelists to thank our organizers, in particular Danny Quah, for giving me this opportunity. Well, my first encounter at the World Bank was back in almost three decades, although that really made me feel old. When I was a young graduate student who was looking for an internship, the World Bank, at the time the IMF and others, only focusing on economic issues, but as an emerging hopeful political scientist, I

was looking forward to practicing my understanding of conflict in the development era. And the World Bank gave me an opportunity for Water and Conflict, the pilot project together with the UNDP, and that gave me another bigger opportunity to work at the UN, UNHCR, and other places as well. And also, I must admit that I was not only young, but also a poor graduate student. And while working here at the World Bank for one year, they brought me from the one-room basement to the ninth floor high-rise studio. So I just wanted to give this kind of talk, if I got a chance in the World Bank. After three decades, I'm glad I was able to manage to mention that.

So I always have a big respect and fun memory for the World Bank. Well, anyway, as I said, I am a political scientist working on international security and diplomacy, and probably I'm not well filling in this panel, but these days, economic security or interdisciplinary discussions and dialog between the politics and economics and trade, and I think from that connection, I do believe I got invited here myself. Exactly 24 hours ago, I was in New York City, in Asian Society, where I was talking about a slightly different thing, [the] Korea-US alliance and what we should do for security and economics. So I think this is a wonderful opportunity for me, again, to talk about the geopolitical shifts, somehow related to economics, but I don't think I have a position to talk about economics. So let me just focus on the security and diplomacy issues. Well, our title was Geopolitical Risk. If I can slightly change the terminology, since our moderator said, I'd better be a bit more optimistic. So, geopolitical reordering. So when it comes to geopolitical issues or order, I cannot think [of a] better word [than] liberal international order.

That was led by the United States, and it's not only institutional and power gain, but also [a] normative backbone for global stability. And UN, World Bank, IMF, or US-led alliances, the official seven alliances plus quasi-alliances and partners, more than 60 alliances and partners that the US has. And all those groups were together to ensure the security and prosperity for many parts of the world, including South Korea and other middle powers. Liberal international order is not just about power or hegemony. Hegemony read that US-led order, but also I think it was shared rules, institution legitimacy, and global public goods. By saying that, we talk about trade openness and the development finance and collective defense against the revisionist power. With the two liberal international order, I think definitely we are under a strain, if not a crisis itself. But the problem is not coming from external shock or external revisionist power, as we observed during the COVID period. But now it's not only those external shocks, but also from the internal fragmentations, or I'd say the normative fragmentations as well. So maybe briefly, for three dimensions of this order: structural, ideological, and institutional.

In an interesting time, you can quickly read this one. But if I can only mention those institutional parts, I think definitely those UN, I hate to say, but including the World Bank as well, Security Council, the bureaucracy, is paralyzing the efficacy of UN. And we can even talk about the irrelevance of the United Nations. And the G7, the broader consensus on the issue, tried to make it, but they still have a legitimacy gap. And over the past year, I worked very hard to make Korea an advanced middle power to be part of the G7+ process, but the bar is very high to get in, although we'd still give [it] a try. And the fiscal crisis and the budget cut for USAID and all others that I will get back to in a minute. And all those issues [are] a big blow in humanitarian and developmental terms, like the dimension of health and food and displacement. I think last night, Rubio said that the USAID cut doesn't affect any single number of the deaths. And then CNN showed us a very sad and tragic story of the death of the three-year-old boy from Afghanistan.

So there's still a humanitarian issue and a developmental issue. And what we should do for health and food and displacement. I think that's a serious problem. So it's not only shift in power we are talking about when it comes to geopolitical shift, but it's definitely a shift in purpose. Well, I was asked to focus on Northeast Asia, but since I'm from the Asia Pacific and in the Pacific region, I'll just briefly tell you that the Pacific region is a pivotal place for global reordering. East Asia has overlapping hotspots, like South China Sea, Taiwan Strait, Korean Peninsula, and East China Sea,

and all these things becoming a flash point to make a simultaneous escalation might give us a tremendous negative global consequence. Then the Northeast Asia, and in specific, where I come from, there are three largest militaries, US, China, Russia, and a very tight alliance network that is US, Korea, Japan, and our [allies?] are there. That's a positive sign, at least for now. An authoritarian nuclear state, Russia, China, and North Korea. And then we, non-nuclear democratic states, only two, Republic of Korea, South Korea, and Japan, have to deal with this authoritarian nuclear state.

Then I think we better build up security cooperation. But unfortunately, our historical animosity and territory dispute and those deep looted distrust prevent us from security cooperation alone. Therefore, we need trilateralism together with the United States. And that's what happened under the Biden period, what we call Camp David, the summit for those three countries. But unfortunately, Biden lost and Trump came back. And in Korea, because of martial law, we see also the change of the regime. And in Japan, they still have the Liberal Democratic Party, but they also lost their election two days ago. So all those heroes of Camp David are gone. So now we are still talking about this spirit and this content should be there in order to build up the security and prosperity of Northeast Asia. For that, trilateralism is very important in terms of many things. But maybe Trump wouldn't accept the terminology that was made by Biden, that is, the Camp David. So I just kept saying that probably we should rebrand the name, maybe Mar-a-Lago Summit. But still, I think we need these trilateralisms.

Why? Because according to this year's CSIS report, 5.3 trillion in annual global trade passes under increasing strategic risk. Then what was the problem? Although I was asked to talk about a bit more optimistic one, I have to be a political scientist analyzing what happened for us. Number one, failure of great power governance. I call it Dual Trap. So since it is a trap, of course, we all know of the US-China strategic conflict over hegemonic power. And I think according to the RIMPAC, Rim of the Pacific Exercise led by the US Navy, there were 29 states engaging in this one. It was the largest ever one that indicates we still have some motivations to deter the rise of China, particularly the military rise of China. But at the same time, we have a Kindleberger Trap. You remember that in the 1930s, there's no single powers willing or able to provide global public goods. And that eventually led to World War II, although it was not the direct cause, but it was an indirect but important cause at that time. So US entrenchment, the cut to USAID and National Endowment for Democracy, and Radio Free Asia, Radio Free Europe, or Voice of America, and all those things were at the risk of a distinction.

Here, I have to tell you a lesson unlearned from the US government. After the Cold War, US hegemony enjoyed their single leadership so that they didn't have to have a beauty contest with the Soviet Union, the Soviet's gone. So that they just ignored Africa and South Asia and others, or the Middle East, the underdevelopment. So they just made a fragile state into a failed state. And that failed state turned out to be a bedrock for terrorisms. And then that gave a boomerang effect to the US 9/11. US global influence will fall by 30% by 2030, according to recent projections. Obviously, the US government, particularly under Trump, didn't learn many lessons. But it's not only the problem of the US not learning lessons, but I think that it is a serious problem about what my late mentor, Joseph Nye, who unfortunately passed away last April, was talking about: the sleepwalking into catastrophe. So we are heading towards a sleepwalking trip, unaware of what is going on now. I think we are escalating tension, systemic crisis, and that reminiscence of 1941, Sarajevo event. It can be Taiwan, it can be North Korea, it can be Gaza, it can be Ukraine, it can be Congo, we don't know.

But I think that moment might bring us to another World War III. The second point for the global serious shift is authoritarian entente and democratic fragmentation. Since I've already talked [about] those issues a lot in the beginning as my introductory remark, I will be very brief for that. But China's influence grew and is outreaching to the Global South under Trump 2.0. As you see, 80+ states are now beneficiaries [of] 5G, Huawei, and then \$608 [million] in 2024 across Africa and Latin America.

Yes, China was trying to get better in the wake of COVID-19, but I think that, ironically, Trump paved the road for China to have more strategic leverage, to make it outreach to the Global South. I think that is the one thing I would like you to worry about. In the democratic fragmentation process, 60% of Pacific nations doubt US reliability, according to the 2025 Pew survey, and 92% of elites still believe China is a revisionist power that needs to be deterred, but they still prefer to pursue strategic hedging. So undermining collective deterrence in the Pacific is a serious issue as Trump sees alliance as a transactionalism over transnationalisms.

And since I'm from Korea, I just wanted to tell you one more thing about our concern, that the China, Russia, and North Korea axis is deepening. Particularly North Korea and Russia, the military ties are deepening because North Korea has contributed troops to Ukraine, and they are expanding the cooperation beyond military now for trade and technology and all other things. That poses not only the threat to the Korean Peninsula, but also regional and global threats. So European countries are very keen [sic] on their military ties. But if I can strictly talk about a serious problem for us, we have a new government. The new progressive government would like to have a recovery, a reconciliation process with North Korea. But believe me, North Korea is not interested in talking with us, where they don't even talk with the US because they have Russia and they have China, and their backyard is widely open while the UN international community tried to give a sanction against their nuclear adventure. But I think Russia and North Korea's military ties keep South Korea's strategic room very narrow, undermining the Korean Peninsula peace process, and the denuclearization diplomacy is far from visible.

Having said that, if Trump, for whatever reason — maybe he wants to win a Nobel Prize slowly or whatever — wants to use his summit meeting with Kim Jong Un, the North Korean leader, as his trophy and bypass South Korea, I have to say that this definitely crosses South Korea's security red line. The third point is US strategic uncertainty. Well, I think this is more serious. Well, with Trump 1.0, I thought we could wait for four years, but he came back. That means probably we cannot go back to where we were under Biden or under LIO situations. Well, not only because their economy is relatively in decline, but I think [in terms of] democracy promotion budget. As I briefly mentioned, USAID. Look, July 1st, 2025, they officially shut down except the two [unclear] points, and \$8 billion in foreign aid cuts, 14 million preventable deaths by 2030, according to a Lancet analysis. RFA, Radio Free Asia, which has been a champion for human rights, individual freedom, and democracy, has suspended its Korean, Mandarin, and Tibetan services. And Trump's transactionism over alliance, solidarity, and transnationalism, I think that gave problems for other strategic transactionalism. But I think we now have to worry about how we can handle multilateralism, but instead of that, I think about how we can deal with multipolarity.

Multipolarity is a much dangerous and complicated issue. But as the Princeton University Professor, Ikenberry, mentioned, even so, I think [there is] no viable alternative to [the] liberal international order yet. So here I have to give you some optimistic trial [likely meaning "take" or "outlook"]. Resilience of Democracy Multilateralism, I call it RDM. My definition is the capacity of democratic countries to uphold, adapt, and promote multilateral institutions and norms in the face of hegemonic decline and authority pushback or systemic crisis. I think these days, I think we have too much talk about military security or economics and numbers, but where's the norm? I think we need a norm. We need a value. That is, universal values. So why [does] RDM matter? Because of those power vacuums and institution breakdowns can be cured in a way. But I think that we share the burden of the region [?] from a certain influence. I think security — I mean, guns and money [are] important, but I think norms [are] also very important. Therefore, I think, [the] role of middle powers [is important]. We are consumers of what the great powers have made for the international organizations and order, but I think we have to be designers. No longer mere participants, but strategy order facilitators. And we are a tech power.

And if I can boast about Korea, not to mention the K-drama or K-food or whatever, but ROK credibility is also rising from developmental legacy, democratic resilience, alliance reliability. And then talent giants, what the Stanford University professors were talking about is Japan, Australia, India, and also Singapore can be a talent giant because they have their specific strengths to be developed. Then what can we do with or without the US, right? And then I said the Biden era and Trump 2.0. But we need to mention about without US leadership, hopefully it won't happen. But at the risk of fragmentation, we have to deal with it. And the UN, World Bank and NATO weakened or were being bypassed. So I think we must, as I said, anchor and adapt and sustain institutions. And we have to make a coalition of wills based on our hard power, also soft power, what we call smart power. So my final takeaway, how to sustain the Resilience of Democracy Multilateralism. I think rule-based order, at least US retrenchment, is very important. G7, NATO and UN forums, where we, middle powers, have to find rooms and roles.

And then, jointly defend WTO, UNCLOS and rule-based systems. I hope we can do something together. And then shape and design institutions, not just use them as middle powers. [The] UN proposes a middle power initiative and concerted groups. I think the UN General Assembly will be a good platform for us since the Security Council is now stuck with the vetoocracy. And World Bank may support broader inclusion in decision making and co-led innovation platforms. Well, here I want to talk about a little bit more critical of it, but I want to be generous. As I said, I'm a big fan of the World Bank, but I think that broader inclusion in decision making is, I think, that's something you have to think about as well. And how to link G20, UN, OECD on the rural governance and matrix. [On] my final slide, I talk about strategic priority for middle powers. The first, revitalizing coalition credibility. As I keep saying, upgrade trilateralism into a governance platform. So I was talking about [how] providing global public goods is important. But unless we, the US, ROK, Japan, and northeast Asia, try to provide regional and global public goods, I think our trilateralism is nothing but just a small gain for our own interest.

And build middle-power-led-security and economic architectures is very important, [including] UNCLOS [?], the Quad [?] and also G7+ format, or a constant presence in NATO as an observer is, I think, important for the Northeast Asian countries to engage [with]. And quickly bridge the governance gap, co-develop infrastructure with Global South partners. Here, I want to echo what Robert Jolly was mentioning, the Global South is not our object, but they are our client. I think that mentality is very important. And the alliance strategic narratives. I think we have to see how to address domestic divides to sustain international credibility. I think it's a question for many democratic countries. We are now dealing with populism and nationalisms, so we need to have a coordinating alliance messaging to reinforce cohesion, particularly if we have to build up something without the United States. Last but not least, reinforce institutional anchoring. I think we should uphold liberal democratic values through active presence in G7, NATO, so they're consolidating like-minded countries, and cooperation [among them]. However, we have to go beyond the G20 or G7, expanding engagement across diverse minilateral platforms. And we have to seize what I call hybrid multilateralism in that context.

That means while we are consolidating like-minded countries' cooperation, I think we have to be open and we have to be persuasive to outreach to norm-respecting non-like minded countries as well, who believe in universal values, human rights, individual freedom or democracy. For that, I think to promote inclusive and rule-based cooperation through outreach and institution innovations. For that, I hope the World Bank can play a good role, and we, the middle power, can do something as well. So I'll stop here. Thank you very much.

Aaditya Mattoo: Okay. Let me ask three lightning questions, and you have to give short answers. First question for Heiwai. You had this picture of flying geese from Japan. Now, when you look at China, despite all the restrictions, production stubbornly stays in China. Even the countries who supposedly replace China Plus One, either they're trans-shipping or using inputs from China. China

seems to have a comparative advantage. It defies economic logic. In high-scale, low-scale, everywhere. Is the Japanese flying goose, does it become a Chinese dodo, which means it doesn't leave China. Why is that and what can be done?

Heiwai Tang: I mean, manufacturing firms are gradually leaving China. It's hard to leave China because as we know, the production networks are so dense and developed in China. So leaving implies that you have to ship the intermediate input from the same suppliers, but now you have to overcome quite a lot of transport cost. But as I've said, I started bringing a lot of Chinese CEOs to visit Asian countries and Middle Eastern countries. Now there's a new paradigm, which is to go out together. I'll give you an example. There is a special economic zone in West Java, and the whole industrial zone was essentially developed by BYD. That local government in Indonesia basically provides enough subsidies and guidance and land concession to BYD to encourage them to bring not just themselves, but their upstream and downstream to Indonesia. Of course, the Chinese government doesn't want to see this happening too fast, but there's no choice if the tariff continues to be 50% plus on Chinese exports. I can continue, but this is happening perhaps not five years ago, but most recently it is happening.

Aaditya Mattoo: Thank you. Saravana, a question for you. Japan and Korea, who were extremely unwilling to allow immigration, are beginning to open up because of their aging societies. What can they learn, even as the rest of the West closes? What can they learn from the experience of the rest that will mean that this opening is sustainable?

Saravana Ravindran: First, I think there are still a lot of challenges that I didn't get into in the talk, and I think managing some of those challenges are important. When we think about the migrants who are coming into these areas, their welfare and well-being is a big part of this story. I've described a somewhat positive picture for the families back home, but in our work and in our sample as well, we see them using very standard health surveys, negative impacts on the migrant's physical, emotional, mental health because of the working conditions. I think that's one important thing to really manage, also looking after the welfare of the migrants. Yes, they are under a lot of pressure to send money home. How do we ensure fair working conditions, making sure they are not working extremely long hours to basically fill that need that we have seen in Bangladesh and other countries, but I think that's also helpful lessons for some of these countries going forward.

Aaditya Mattoo: Thank you. Last question for you, Shin-wha. You spoke about what the Europeans would call variable geometry, which is cooperation by subsets of countries and subsets of issues. But isn't there a cost of this fragmentation? What happens if flows of goods, trade, are based more on mutual trust rather than comparative advantage?

Shin-wha Lee: Well, I think when it comes to Europe, they have some common histories. Of course, they are fighting each other, but they learn lessons from that. But I think in the case of Northeast Asia and others, I think there was a big power, Japan, which was embedding us [likely meaning "imposing itself on us"], and it colonized Korea. So there is a sense of victim[hood] that is there no matter what Japan tries to explain or do. And an interesting thing is [that] now Korea is just emerging as a big middle power, and then in some areas, we just are passing Japan, right? So then Japan tries to consider us as a competitor as well. So that makes it even harder to make a reconciliation over history. So that gave a big compartment for us to move on with the regional community. So whenever we talk about it, we try to link with Europe in order to talk with Japan. And we try to have an ASEAN+3 in order to talk with China and Japan. So I think those limitations gave a lot of limitations for Northeast Asian to move on, although we have very strong tech, economic, and [political] power.

Aaditya Mattoo: Thank you very much. Please give a hand to this wonderful panel. The price of listening to our brilliant chief economist sooner after you refresh with a cup of coffee is that you don't have an option of asking questions now, but you can save all the questions for the meeting. See you soon.

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