# BALANCING STRATEGIC COMPETITIVENESS AND SHARED PROSPERITY

**Announcement 00:04**

Please welcome the panel on "Balancing Strategic Competitiveness and Shared Prosperity," moderated by Karen Kornbluh, senior advisor, emerging technology at the Milken Institute.

**Karen Kornbluh 00:37**

Hello, everyone, welcome. So here we are meeting one month after Liberation Day, after all the economic textbooks have been thrown away. And you know, while we've been all buffeted, I think, around the world by the various announcements that have come out since then. And you know, even today and this weekend, we have tariffs on movies—I think today is a meeting with Canada. We can be very distracted, so I think we're going to start the panel by taking a step back. And I'll ask all of you one question to start out with, and maybe you can take three minutes and give us your view. But the main question is, what are the lasting impacts? Where is this all headed, and how do you see that playing out? And Simon, if you don't mind starting.

**Simon Johnson 01:25**

Thanks, Karen, so lasting impact is obviously impossible to say right now, I do think that we are in a new system. I think the previous system built after 1945 which had its ups and downs, has been largely wiped out in the first three months of the Trump administration. And what will replace it, both on the defense side, around NATO and also on the trade side and also on the finance side, remains to be seen. But clearly, there are different ideas, a different ideology, if you like, about what is and is not reciprocity, what is and is not fair. I think that the good news is many countries from around the world have had an opportunity to go to the White House now and make an offer, make it, and see what kind of deal they can do. And I had some discussions, for example, with Europeans at this conference that are, you know, quite encouraging. They've got ideas about what they'd like to offer and what could be in it. And maybe there's an end point which tariffs are not higher or even lower on what matters than where we started. But it is a completely new system. I think our assumptions about how things—what's reasonable, how things work, the way great power competition works, the way supply chains work—I think all of that should be—we should reboot and start from scratch and say, "Okay, what are the real power politics? What's the way in which goods and capital and people flow around the world? What would we like to achieve?" I mean, I think you can make suggestions now that perhaps would previously have been regarded as crazy. Everything is on the table. And I hope, and I believe, particularly after being at this conference for two days, that there's a lot of people in the international business and finance community who've got very reasonable, pragmatic, solution-oriented ideas. And I think the more we can get those into the mix, the better. The less it's about the grandstanding and some headlines, and the more about, okay, what jobs are we creating exactly, where in America, who's getting those jobs? How much are they being paid? Those are very real questions, Karen, and those are questions that were not always, frankly, entirely at the top of the agenda over the past 20-40, years in Washington, as you know. So I think that elevation is positive. I think some of the proposals that are—some of the directions that are currently on the table are not great, including excessive and erratic tariffs. That's not going to help. But if we're restructuring the system and trying to find more win-win solutions, particularly between the US and Europe, that's very sensible. I do worry, and hopefully we'll talk about what's going to happen in Asia and the way China either figures or doesn't figure in this conversation. I've heard that in other years at this conference, there's been a lot of Chinese representation, a lot of topics around China, and now it's much quieter. I think people are nervous and don't know which way to go. And perhaps it's happening in private sessions I wasn't invited to.

**Karen Kornbluh 04:12**

A leading indicator—Eddie?

**Eddie Fishman 04:13**

So in some ways, I agree with Simon in that I do think we are in a new era, but I also disagree with one of the things he said, which is, I don't think that this new era started in the last three months. I think we've actually been living in an age of economic warfare for at least the last decade, if not the last two decades. I think if you look at sort of the rise of the use of sanctions, tariffs, export controls, there has been an exponential increase in the use of these restrictive measures by the US government, starting in the George W. Bush administration, continuing to Obama, Trump, Biden and now Trump again. So there's a secular trend in which the use of these tools are being deployed much more liberally. I think the thing that is new about what Trump has done is that previous presidents have really limited the deployment of these economic weapons against countries that most Americans would consider adversaries: Russia, Iran, China. In the Liberation Day tariffs, which really targeted every country around the world, and in some instances, like Vietnam and other Asian democracies, they were hit with bigger tariffs than some of our adversaries. That, to me, is new, and what I think that augurs, if you're asking for lasting impacts, I think during the Biden administration, I think we were headed towards something that looked like a bloc- based global economy, where you had a bloc that was led by the United States, with other democracies in North America, in Europe, in Asia, this whole concept of friend shoring, and then another bloc that would be led by China and other authoritarian countries. I think that is sort of where we were headed up until a few months ago. The thing I worry about now is that I don't know if that option is even on the table anymore. And I've heard some conversations at this conference assuming that maybe it would be - we're heading toward geopolitical fragmentation in which there are two blocs, Cold War, 2.0. I actually believe that that might be the best possible outcome, and that by losing the trust of our allies, we are now encouraging the Europeans, the Japanese, others, to hedge against us, and they're not necessarily going to be so willing to put all of their eggs in the American basket anymore. Diana, what do you think are the lasting impacts from your vantage point?

**Diana Choyleva 06:25**

Well, let me take this even broader and deeper. We are in the midst of an all out, all encompassing, great power competition between the US, the existing hegemon, and China, the aspiring hegemon. And I'd like to frame this in the context of the great decoupling, and actually know that this all started with China wanting to decouple first, and the US being behind the curve in really assessing and realizing China's real intentions and also how quickly they were progressing. So now we face what I'd like to summarize as a three front competition that is the trade war, tech war, and Taiwan war. We have in the trade war anything to do with trade and what Simon and Eddie talked about, but including actually capital markets, and there's a lot less talked about that, and that's the next frontier. Then we have the tech war, which is really what this is all about. Because whoever wins the tech race will be the hegemon of the future, and it is because of tech that we will bifurcate into a China- and US-led sphere of influence, rather than any kind of multi-polar global system. Because when it comes to technology, China and the US are so far ahead than anyone else, be it Europe, India, obviously, Russia, that they have to choose. I like to say very simplistically, when it came to the choice of telecommunication equipment, it's either Huawei or the highway if you wanted to stay within America's sphere of influence. So countries, multinationals don't want to make that choice, but because the technology of today is such that conventional war has spread in many domains, and your critical infrastructure could be utilized in a confrontation, you will need to make those fundamental choices. Of course, all of us, I'm assuming there are people who do like war, but on balance, we don't want to end up in the Taiwan war, or any conflict between China and the US over other issues in the South China Sea. But there is a real risk and danger to it. So actually, I agree with Eddie when he was saying that the bifurcation might be the best possible outcome, but more from the point of view that if we end up in a situation where both spheres of influence are equally big, we are more likely to have a more stable global environment than if we end up in a situation where one sphere of influence is a lot smaller than the other, because the temptation to go further will be there. And the final point I want to make is that the way things changed post Liberation Day is that really—there is a race now between China and the US with respect to which countries they will attract to their respective spheres of influence. And what Biden did very well, and in geo-strategic terms, this is the one thing that China really feels uncomfortable and is scared of when it comes to the US, is the US ability to have allies and to mobilize these allies. And the way Trump approached this has really put that in jeopardy for the US. So actually, as far as the Chinese are concerned, they're sort of sitting back and they can't believe their luck.

**Karen Kornbluh 10:40**

Anin?

**Anindya Bakrie 10:40**

Yeah, thank you very much. Karen, yes. First of all, it's nice to be in this prestigious panel indeed and I hope to bring some voice from Southeast Asia. Just couple of days ago, I was in Washington, DC. Being chairman of

Indonesian Chambers of Commerce and Industry, we also give inputs to the government as to how we can find a win-win solution in this trade discussion. So Indonesia is the largest country in Southeast Asia with about $1.4 trillion economy. It is the only country in Southeast Asia that is a member of G20. So the biggest trading partner for Indonesia is China, with total volume about $130 billion and we are about even in terms of the trade. And then the second largest is actually the US, with $40 billion we are surplus of $18 (one eight) billion, so what we are discussing with the US, among others, is to balance the trade. And there is actually a way to double or triple this trade, because we import oil and gas derivative from somewhere else. So we can reallocate that to go to balance with the US. And from there we can buy more protein, soybean—which we imported 90 percent of it—wheat, cotton, meat and dairy. And on the other hand, we want to sell more of the same, which is the electronics, footwear, garment, rubber and so forth. So our prediction, that's why I think rebalancing is not always that really, because it makes it sustainable. So our prediction, I think in two years, the 40 is going to be 80, and I think in three years it's going to be 120 which is close to China. Now, on top of it, this type of rebalancing, I think, is good. We talk about strategic competitiveness on this panel. What we bring to the table, for example, is also critical minerals, because Indonesia has the largest nickel, top five in copper, gold, bauxite, and so on. So we say, 'look, you know, in any way we can work on this processing of critical minerals, this is going to be win-win,' because a big chunk of the trade with China is actually exporting the critical minerals being processed with the value addition in the country. And lastly, I want to mention also, Karen, is that Indonesia now has the capability to co-invest, including in the US, as long as it is in line with the supply chain that we're making. Just 12 weeks ago, we launched our first sovereign wealth fund. The assets under management are $900 billion, and every year we are churning dividends of ten billion dollars. So in any way of these discussions, whether in oil and gas, possible export to Indonesia, or the agricultural products, we are very much interested in doing that if that helps in the trade negotiations.  Great. So we'll go right now to sort of what the what the immediate next steps are. We've previewed that a little bit, and then I think we'll talk about national security, tech jobs, you know, some of these specific issues. Diana, I wanted to go back to you, and I think we're all really curious. And Simon mentioned this too, what is the next move from China? What do you see? What do you think is already happening, and what do you see as the next move on the chess board?

**Diana Choyleva  14:27**

China will play hardball. They've had 10 years to prepare for a potential second Trump administration, and they have now the legal and institutional tools to deal with this. And even before Trump, Trump's inauguration, they started to give signals that they are going to play hardball, and already, what we have seen is the Trump administration stepping backwards. And making concessions that from China's point of view, will just reiterate that their strategic long-term position on this is the right one. So they're sitting back and of course, for both economies, this is a huge shock, but when it comes to the near term ability of China versus the US to withstand this increased pain, China has much more capability to do that than the US, and in that sense, has much more leverage in the near term. Over the long term, this is also reinforcing one strategic shift that is absolutely essential for China, and they finally got the memo, or the message on that front, which is to rebalance their economy towards consumption and actually become also the consumer of first resort for their sphere of influence, by exporting also a lot of the production of low value added goods to other countries within their sphere of influence. And so they will redouble their efforts on that front. They're also—and we've seen all the news in the last couple of days—really making a go at Europe, which, actually before the invasion of Ukraine, I was really worried that Europe could split over this issue. Post the invasion of Ukraine and Germany's response, I thought that 'you know what? Actually, Europe is unlikely to fall into China's sphere of influence.' But now we are back to China having a real opportunity to pry it away, if not the whole of Europe may even break up Europe over these issues.

Karen Kornbluh  17:00

That's great. Eddie, you've described this as a multiplayer game, how do you, what do you see the next steps? And do you, do you see a big risk of escalation?

**Eddie Fishman  17:08**

Yeah I think that risk of escalation is very significant. And I think it's also being—it's not appreciated, I think, how real it is to investors and folks honestly in government, either. If you go back to 2018 when Trump launched his first trade war against China—that was when the US Trade Representative Bob Lighthizer started with the section 301, tariffs—the world kind of looked like something in the economic sphere, as it did in the dawn of the nuclear age, where the US had all these economic weapons that had honed over time, but no other country did. But I think, as Diana mentioned, you know, China now has a fulsome suite of economic tools, not just tariffs that they can impose right back, but sanctions. They've imposed sanctions on, you know, Skydio, the biggest drone company in the US, which has been forced to ration batteries. Now their customers only get one battery per drone. On PVH, their apparel company, on DuPont chemical. These are not tariffs. These are actually US companies who are being sanctioned by China. We've also obviously heard about export controls. There have been panels here about the fact that in the US we're highly vulnerable to them, because China is processing 99 percent of some of the most important critical minerals that we depend on from everything from ammunition to computer chips. So export controls is another way that China could retaliate. By the way, it's not just China, right? I mean, the European Union spent the last several years honing its ability to impose sanctions at the behest, frankly, of the Biden administration, to try to get the Europeans to take more of their share of the burden on the Ukraine issue. And now some of those tools that they developed —including the anti-coercion instrument, was actually based on China—they're considering using against the United States if we're going to start imposing tariffs against the EU. So I worry that, you know, investors, when they look at the trade war, all they're doing is tracking what Trump says, and they're saying, 'Okay, well, it seems like we're now past peak tariff, you know, Secretary Bessent has said that, you know, the US-China trade war is unsustainable, we're going to move those tariff rates down one way or the other.' But what that doesn't take into account is that A: tariffs are not the only weapon, and B: other countries have a reaction function that we don't necessarily control, right? And they have their own domestic politics too. And so it's very possible that we could have an unintended escalation between the US and China, or the US and Europe, or even Japan. And one of the news stories that caught my eye in the last week was the Japanese trade negotiator mentioning that Japan's holdings of US Treasuries could be a card to play in trade negotiations. I mean, these are other countries thinking about how to weaponize their own chokepoints against the United States.

**Karen Kornbluh  19:39**

Simon, as we're getting these issues on the table and possible next moves—tell us what tariffs are for. You know, what is the point of a tariff? Can they be used in some win-win kind of a game? Or is it always win-lose? Is there a positive use? A positive scenario we could wind up with, at least in the medium term?

**Simon Johnson 20:06**

Tariffs been used for many different purposes in across all economic history, and sure, there are some—you can use them for revenue to some modest degree, you can use them strategically—that Lindsey Graham and 72 senators are supporting a version of a slightly unusual tariff proposal that would target Russia as a way to put pressure on Russia, I think real pressure to de-escalate in Ukraine. But in general, what you get when you have a higher level of sustained tariffs is an atmosphere of protectionism. You have less competition. Latin America tried to develop behind tariff barriers from the 1950s-1960s—very unsuccessful. It was the lesson from Asia, including Southeast Asia, is you do much better when you try to open, you try to orient towards export. And nobody's asking you to import absolutely everything with zero tariff immediately. But that export orientation is something that's served Indonesia and other countries well, and it's generally what served the United States very well, although some people did get left behind without question. I think the main problem with the tariff proposal, and this US-China dynamic we're discussing here, is that the US threat point, which is to continue with a high level of tariff on Chinese imported goods, it's a pretty big regressive tax, meaning it impacts lower income American consumers. So when Diana says America can't take the pain, the question is, the people who feel the pain are not, generally the people in this room, because they don't actually, most of us don't have a lot of imported goods in our consumption basket, but lower income Americans do, and they are going to be very upset as these the shortages of goods which is already coming through the supply chains, and as the higher prices manifest themselves. So in the next 1, 2, 3 quarters, we're going to see the pain, and then we'll see the political part of it. And so as a negotiating strategy, obviously, Mr. Trump has got everyone's attention, no question, and countries are coming to the White House lined up to try and get themselves off the hook. But the threat point is not a really good threat point, because we don't want—I don't think Mr. Trump and his base, or anybody politically is going to be happy with that. And the other thing I would overlay, Karen—and I know it's big part of your interest—is what happens to technology and science. So what one strategy you could do is combine some degree of tariff threat with a redoubling of investment in science and technology development in the United States, which we're very good at, and it's a big advantage relative to Europe, and it's an it's a key issue contention with China. But instead, we're scaling back—NIH is proposed to cut a lot—great deal of uncertainty on other science funding. So we're disrupting one of our key advantages. At same time, it's threatening to go to a point which is not to anybody's political advantage. It's a very strange position to have, except everything is moving and everything is noise. We don't know what the signal is. So tariffs, I think, are not ultimately going to serve this administration very well if they stay with the high tariffs and combine that with the largely anti-science, anti-university policies they're pursuing.

**Karen Kornbluh 23:00**

Great. Anin, I mean, I hate to make you stand in for all of Southeast Asia. But I mean, Indonesia, the retaliatory tariff was set at, I think 32 percent—really high. And I think so many people were caught off guard by this idea that we would impose tariffs on Southeast Asia when, not only do we have allies there, but it's a key part of the supply chain, as things have moved away from China. So how do you see Southeast Asia in general responding? I saw some news in recent days that there was this press release put out after a meeting about resilience, and it was taken as "we're going to stand together." So I'm wondering what you're thinking.

**Anindya Bakrie 23:43**

Thank you. I will try to relate as much as possible to the US audience. So number one as the big brother of Southeast Asian Nations, or ASEAN. And by the way, ASEAN was built in 1960 along with the free, non-aligned movement in the 1960s right? So Indonesia has tried to be in a sort of like assertive, but having its own autonomy. So when we see the US, we think it is actually—again, I want to take a step back to say that tariffs ,on its own, will drive inflation and recession—can be somewhere there, right? But tariffs, along with the negotiations about other things, such as, you know, science, R&D as well, as you know, we talk about critical minerals, can be a good starting point to have a discussion. So I think what the US has a lot so far is political capital, but the political capital is depleting if the US is playing only with fear as opposed to love, for the sake of argument. So what we see when we come to Washington, DC this time actually, because my counterpart is US Chamber of Commerce, so we speak to the national council of grain, soybean, cotton, meat, dairy. They're very keen, actually, to do trades, to do business, to do investments, and to a certain extent, I have a feeling that they also pressure the government to do the deals before July 8. So just like to Simon's point, maybe this is it is a bit unorthodox how you do it, but it is a way for rebalancing the tariff, but also to do a lot of other things. Now science and technology is something that Southeast Asians really, really need, other than security, because Southeast Asia has been peaceful and stable for the longest time. So so far has been 65 years, right? Never had any war disputes among each other. So science and technology is, I think what the US can share a lot in this trade negotiation. And I think a way to play that will, you know, there are 18 out of the almost 200 countries that would like to be prioritized by the US before July 9. If some of those can really be done, and again, in a research and development, science and technology can be a part of it. Because you have to remember, Southeast Asia has 650 billion people. Now the average GDP per capita may be about $9,000 to $10,000 per capita. So yes, it is a big region. Yes, we have the growth story, but at the end of the day, you know, we need to have equitable, you know, welfare among the people.

**Karen Kornbluh 26:51**

Great. Thank you. So, so let's just, let's hone in a little bit on some hot button issues, like national security. Eddie trade has, as you've mentioned, trade has been used in the past against Iran, against Russia, against China. With this move - and it's been used rather with mixed results, but rather successfully - with this move, does the US risk overplaying its hand? Do we risk sort of depleting this incredible leverage that we have?

Eddie Fishman 27:23

I do think we do. I think something that's important to appreciate is, as I said earlier, there is sort of this trend where presidents from Obama to Trump have been using sanctions, tariffs, export controls more and more often. The thing that is a little different, in addition to weaponizing these tools against allies and adversaries alike, is that most presidents in the 21st century have really been using the dollar and the financial system as the key chokepoint for economic warfare. So financial sanctions - usually what they do is they cut off a foreign bank, a foreign company from transacting in dollars, or from—if they're holding dollars—from freezing their bank accounts, right? Another important chokepoint that we've used for economic warfare are semiconductor supply chains. That's actually something that President Trump pioneered in his first term against Huawei, that Biden then expanded to the entire Chinese economy and also imposed on the Russian economy. If you look at finance and technology as chokepoints that the US uses, the United States, dollar is 60 percent of global foreign exchange reserves, 70 percent of global market capitalization is in the United States, 90 percent of foreign exchange transactions have the dollar on one side or the other. In the semiconductor value chain, 40 percent is provided by

US companies, even though most of the fabrication is done in places like Taiwan and South Korea, it's really companies like Nvidia, Applied Materials who are adding most of the value to that supply chain. You look at trade, I mean, the US is 10 percent of global trade. We're the third biggest trading country, right? I mean, China is a much more important trading power than we are. Two-thirds of the world's countries count China as their number one trading partner. The EU as a whole is a bigger trading partner by a little bit than the US. So the thing that is a bit unusual about what Trump is doing is that he's actually weaponizing the part of American economic strength that is weaker relative to finance and technology. And I think that as a result, he's over playing our hand and not going to get as much leverage as he expects, while also ruining our reputation as a reliable player. So one other point to note, because there has been some discussion over the last few days about the dollar, and is the dollar at risk of losing its role as the global reserve currency. If you look at 2022 when the US imposed sanctions on the Central Bank of Russia, there was a lot of fear at the time. Something I talk about in my book "Chokepoints" about how Janet Yellen was actually opposed to that move, because she worried about the dollar losing its role as the global reserve currency. However, if you look at it, that didn't really materialize. And I think part of it was because we got the other issuers of the major reserve currencies on board. So it wasn't just the US, it was the Europeans, right? The euro, it was the Brits, the pound, it was the Japanese, the yen, right? So to the extent there was a geopolitical risk premium added on top of any of these currencies, it was equivalent across all of the major reserve currencies. But what Trump is doing now, in terms of unilateral economic warfare, you're incentivizing reallocation, not just toward the gold and RMB, but also toward the euro, right, which if you look at the euro, it's got a lot of the same benefits that the dollar has. You've got the rule of law in Europe. It's a convertible currency. The only thing that's really been lacking has been, you know, a joint capital market, and the type of return profile you can get from the United States. But I think there's going to almost certainly be more hedging against the dollar, and you will see, probably not the dollar lose its status as the global reserve currency, but it will be the euro, the yen, the pound, as well as the RMB and gold that are gradually chipping away at the dollar's share across all of these metrics. Great. I'd love to get Simon and Diana in

**Simon Johnson 30:58**

So I agree with Eddie's analysis, absolutely every word. But then there's this intriguing sort of—you know that some of the ironies of global finance and being a reserve currency, of course, which is, if you really are generally concerned about America's competitiveness and our ability to export, our ability to be a platform for manufacturing exports, for example, then a more depreciated dollar over some long period of time in a stable inflation environment would be just fine. Now it wouldn't be great from an investment portfolio point of view, so you might want to take that on board. But if the euro is strengthened by this, which I think it may well be, then that is going to push, other things being equal, trade balances and current account balances in the direction that Mr. Trump wants. So there may be some strange and perhaps unintended consequences, but not exactly the consequences that are being stated up front, that may actually flow from this, and it may not be terrible. But we then come to the issue of financing the US deficit, and we come to plans for tax cuts, and we come to implications for interest rates, and we come to what some people call—I think, rather rudely, but hey, it's catchy—the Liz Truss moment in Britain, which is the first time in modern history that bond vigilantes came for a tax-cutting, conservative government. And I think that would not happen in an environment where the dollar is the safe haven and everything else is bit chaotic, so let's stay with the dollar, let's stay with Treasury debt. But if people are moving otherwise into other reserve assets, and you're feeling better about these other places Eddie said, then, sure, I think there's going to be more pressure on the bond market, quite likely anyway, and if you add very large increasing deficits with no apparent political will to turn the corner ever, that's a pressure point that I don't think the Trump administration, or any administration, wants to encounter.

**Karen Kornbluh  32:39**

Okay, and we need to bring Diana and China back into this conversation, because we're not just playing a game with some abstract foe. I mean, China has long wanted the dollar not to be the reserve currency. It hasn't succeeded in undermining it. Is now the time?

**Diana Choyleva  32:56**

Well, yeah, it started a long time ago, and originally it was largely unsuccessful. But since 2018-2019 there is a whole new sort of drive and strategy to globalize the yuan. And one of the key things the Chinese focused on was on building the payment rails. And so we have that aspect, which is critical, again, critical infrastructure they depended on the US correspondent banking system—which, by the way, is extremely clunky, the whole cross border payment system, you know, it's very inefficient and takes days to transfer. And actually also you have to have a lot of foreign exchange reserves for liquidity or FX management, etc. So they created their own alternative system called CIPS. But of course, network effects are quite important, so that doesn't really succeed, and it's very much more expensive to trade on CIPS, but it combines both the clearing as well as the messaging. And the messaging all goes through SWIFT, which is where really the US has the chokepoint. And there has been a huge reaction, not just in China, but in other countries in the world that want to get away from that dependency. So actually, China made progress on that front, and we had HSBC, which is a critical sort of banking institution in all this, especially when you look at trade finance, that became the direct participant of CIPS a few months ago. I can't remember where exactly, but the Chinese have leapfrogged there because they've also created a central bank digital currency, which now they don't have as much enthusiasm of deploying that domestically, but they have a lot of enthusiasm of using that for cross-border payments, because it is revolutionary. So it's kind of a stealth change there, because it will be so much cheaper for other countries to trade with China using its own rails, rather than going via the dollar. What I was also struck by what Eddie said in terms of—because, as you know, when it comes to a currency, it's medium of exchange, store of value, and unit of account. On the store of value front, China does not have an interest in weakening its currency. It has an interest in keeping its currency strong, stable and even stronger. And if you look at the however many years since the Asian financial crisis, every time there was a crisis, they held the currency. And it was this long-term strategy to convince their trading partners in Asia that they will never devalue the yuan significantly at their expense. So again, they are winning on the front of creating this long term memory and trust of the stability of their own currency, not to mention also, what type of monetary system will we end up with in China's sphere of influence and US sphere of influence, and we've seen central banks across the globe diversify into gold, but also diversify into other currencies—smaller countries like Switzerland and Sweden, etc.—and so already that again, because the cost of hedging has gone down. So there's been this shift away from the dollar, unrelated to what's going on in China as well. Now the role of the dollar, which is where the US, is the strongest—and again, Trump is undermining that bit as well—is the unit of account, because the US has these liquid, deep, broad markets where, through trust and institutions and the legal system, you can reach a fair price. So you then use the dollar for the unit of account. I recently published a report called the "Petrodollar to Digital Yuan: China, the Gulf, and the 21st Century Path to De-Dollarization." And the conclusion, one of the conclusions of the report, was that that's where it's really going to be very difficult to China to take that role of the dollar is the unit of account and the price mechanism for the oil trade. But Trump is undermining the legal system in the US, the institutional system in the US. Thank God he sort of pulled back a bit from attacking the Fed. So actually, even in that domain that I didn't, you know, where I expected the US to stay much stronger, there are concerns.

**Karen Kornbluh 38:09**

There are big concerns, yeah. So I'm going to just turn to the tech front for a minute. And Anin, you know, Indonesia—trade with the US is much less, as you said, than with China, but electronics is a big part of the trade with the US. As Indonesia has moved up the value chain, as other countries in Southeast Asia moved up the value chain, electronics has been where they've sought to go. How do you see that playing out? These tech supply chains, given how important technology is to the future. Are they at risk?

**Anindya Bakrie 38:44**

First of all, when we talk, as you know, the trade discussion, this is only on the goods trade, not the services trade, but when we include the services trade between, for example, Indonesia and the US, US is surplus by far. I think Indonesia, first of all, is one of the countries that the US and the Chinese can make money. In energy, for example, there's a company called Freeport-McMoRan that made a lot of money. The same thing with the Chinese energy companies. But also, even like the technology companies. So Indonesia is the biggest TikTok user, at the same time the second biggest Instagram user in the world. So those type of technology companies, they actually exist much, much more than the Chinese. So I think the US should really double down on the technology play. Coming back to my earlier point, especially in the era of artificial intelligence—think about how we can have AI interventions in every single corporate verticals, and also industry verticals in Asia. Because if you look at Southeast Asia again, Indonesia alone, we have 300 million people living there. Now, one of the discussions I had with USDA, and I'll come back to how to link it with the technology, is that back in the 1950s apparently over here, President Truman had this free nutritious meal for the people here in America, and we're doing it for 80 million people. So what I was saying is like this: as much as we are talking about soybean as much as we are talking about wheat and so on and so forth, I think the technology component in it—you know yesterday, I was speaking about prescriptive medicine, and then precision medicine, and then preventive medicine. I think a lot of the technology AI services—and please don't forget, data center is going to be very big in Indonesia, especially a country of that size, we have, you know, all the energy you can think of. Yes, we have the oil and gas and coal, but we are probably the hotbed of the energy transition with all the critical minerals below the ground and renewable energy potentials above the ground, and plus the biodiversity that one day we think is going to be a carbon capture and also carbon credit potentials. So I hope that is not too much of tangent, but I think that is the area that US can play a big, big role.

**Karen Kornbluh 41:32**

Okay great. So we're just going to go down the line. I'll ask about technology, and then we'll do a little bit on jobs. And then if anyone in the audience has any questions, please submit them. And I've got a little iPad here that will collect them. But Simon, when you laid out the pieces and when I add them together, the university research, the tariffs, I'm really afraid that the US can blow its slim lead in AI. You are a little more sanguine about that.

**Simon Johnson 42:02**

Well, on AI, I think the US does have a substantial advantage. I mean, China is very good at following fast. DeepSeek was an important development, and that tells us something about the structure of knowledge creation and where the value may be as AI develops. But I think because AI is so driven by private capital, very well established, large digital companies, a huge amount of talent, including from around the world—I mean, some of the best AI researchers I know are European, working for the in the United States, for example—that's a hard combination to break, and there's not a lot of government money in that. And the Biden administration was already very permissive for what the AI companies wanted to do, and I think that is totally being continued by the Trump administration. My concerns on the technology side are much broader than that, and for other sectors. And as Anin put it very well, which is, if you think about US - if you care about US trade, you should care about our trade in services as well as goods. We have this very strong position in a front end of a lot of services, and we also integrate—we probably should produce more in the United States, because production being close to innovation centers turns out to be a very good thing. So we forgot about that, we lost that, we'll bring more. We haven't lost manufacturing output. For example, manufacturing output has remained strong, we gave up on some manufacturing employment. I think many more manufacturing output will develop in the United States. It'll be highly automated, though, these factories will not employ a lot of people, but if we do it right, it'll be integrated in these global supply and distribution positions, and it'll be a very strong current account position, and the trade account might improve also. The key thing, which I know you want to get to as a separate topic, but for me, they're really tightly intertwined, is jobs. Where do we get the jobs, who gets the jobs, which parts of the country gets good jobs? And the really obvious way to do that is through more innovation, more commercialization, more new companies, develop more entrepreneurship in the United States, all across the US—I'm very bullish on that. But you don't get there if you undermine hospitals, through NIH cuts, if you undermine universities through cuts of all kinds and all this pressure on how they're run.

**Karen Kornbluh 44:08**

So how do you get it?

**Simon Johnson 44:10**

You continue doing what—before 1940 the US won almost no Nobel Prizes, with exception of some emigres. After 1945 we've dominated the science Nobel Prizes, because we put a lot of money into basic science, we built this fantastic machinery of commercialization, and we enticed people from around the world to come and create brilliant new breakthrough ideas in the United States. That's the secret sauce. That's what the Chinese studied carefully and are trying to emulate. It's hard to do in an authoritarian system. They—we'll see how far they get. I think the US has still got massive advantages there. We should double down on that, and we should push that money and those opportunities around the country, as we do through medical research, by the way, a lot of which is done in hospitals. We have very good hospitals in absolutely every state in the country, and almost all of them are engaged in serious research so they're connected to NIH funding. So that's what we're really good at. That's what we should be doubling down on. And we should be pushing the job creation piece through manufacturing, close to innovation, but also welcoming global supply chains. And if there's things that make sense to be done by lower cost labor, then I mean lower cost being substantially much, much lower cost the United States. Then either you you allow other countries to do those, or you produce them in the United States—and it's very expensive to have an iPhone or pharmaceuticals or some other things that you really, really care about the cutting edge of technology. So I think that the technology-driven job creation in a responsible, sensible, reciprocal trade arrangement is a totally feasible, very compelling strategy. We might get there. I'm not sure that's—I mean, the trade stuff is a lot of noise, so it's hard to know for sure. But on the science investment stuff, it's pretty negative right now, and that's a worry, and that's a long term—that hurts you immediately, but it hurts you a lot more over 5-10 years as well. And it hurts you in the global great power competition, absolutely.

**Karen Kornbluh 46:02**

So Eddie?

**Eddie Fishman 46:03**

So on the job side of things, I think one important thing that I don't think is talked about enough, is I do believe there are real trade-offs between using tariffs and other economic statecraft tools to create jobs and to incentivize onshoring versus as a national security tool. So I think Simon gave a good rundown earlier of the various uses of tariffs. If you're using tariffs as a tool to try to get countries to stop buying oil from Iran or Venezuela - which Trump has said that if you're going to buy oil from Iran or Venezuela, you're going to get hit by 100 percent tariff, right? And by the way, who's buying Iranian and Venezuelan oil? It's China, it's India, it's countries that you know we are—you have other areas where we're imposing tariffs on them. But if you're going to use that in that regard, you have to be willing to not impose those tariffs if the adversary or if the target bends to our will. But if you're going to use tariffs as part of a real strategy to onshore production into the United States, investors and business leaders, capital allocators need to know that that the tariff is going to be in place for the long term, not just two or four years, but a decade or more, which, of course, is not something that Trump himself can do, right? It's something that you require statutory backing, right? You need Congress to pass those tariffs into law. More to the point, too, I'm skeptical that if you're using tariffs as part of an onshoring strategy, that tariffs alone are going to get the job done. I think perhaps tariffs can be part of the strategy, but I think you're going to need things like strategic investment, industrial policy. If you look at the CHIPS Act and the Inflation Reduction Act, I think those were good paradigms for how you can incentivize more public and private sector investment into critical areas in the US, where you do want to onshore parts of either the semiconductor or clean technology supply chains. But I'm worried that both—you know, Trump has cast aspersions on the CHIPS Act and the IRA in the State of the Union, he even said that, you know, the CHIPS Act was a mistake. And then to Simon's point, you know, this is part of a broader story of cutting funding for scientific research, for things that really undergird our technological development at home. So I do think that tariffs could be part of this strategy, but there's some contradictions in Trump's approach, and if they're, if they're the only part of the strategy, I think they're doomed to fail.

**Karen Kornbluh 46:04**

Yeah, it would be interesting. I appreciate this distinction between the national security and the onshoring of manufacturing, but there's—I think the jobs is almost another piece. I think that got lost even under Biden as well, where they would—the investment was about bringing manufacturing onshore, but there weren't a lot of jobs—there aren't a lot of jobs involved in high-end tech manufacturing.

**Eddie Fishman 48:19**

And I think maybe, to that point too, we have—and I think this is a, maybe a pathology of our politics—is that we have—we're not very good anymore at explaining to the American people when there are real trade-offs in our policy. And in some areas, I think, like, if you're just looking at it from the pure, you know, Economics 101 textbook, probably unfettered globalization, zero tariffs, free trade, would probably lead to the most efficient outcome, right? But in some areas, it might be within our national security interest to have an 100 percent tariffs on Chinese electric vehicles, because we don't want BYD to eat Tesla's lunch and dominate the American EV market. There are real trade-offs, right, not just with jobs, but also with the clean energy transition. But we're not very good, unfortunately, at explaining those trade-offs and making the case to the American people about why we need to prioritize national security versus jobs, or the energy transition in one case versus the other.

**Karen Kornbluh 49:33**

Diana, how do you—help us out here. We've got tech at the center of national security, onshoring manufacturing, and the tech lead and jobs. How do you see all that?

**Diana Choyleva 49:45**

Actually, it goes back to what I said at the very beginning, that because now technology permeates absolutely everything, how can you decide where to stop when it comes to national security considerations. Obviously, you know, I doubt that shoes will ever be a national security threat, but you know, the kind of—what started as a small fence—what was it, small yard, high fence—the yard keeps growing and growing precisely because of that ubiquity of technology, the Internet of Things, smart manufacturing, all of that leads you to think that ultimately you will have to bifurcate the systems, and one will be on one technology, and the other one will be on another technology. And how they'll speak to each other is yet to be determined. I think, going also back to your question about the tech race, I think scale matters, and China has scale. I mean, even before we went to the AI aspect of things, what matters is the amount of data and compute. And then, you know, you crunch all this. In the case of China, its advantage is scale, as well as the huge digitalization effort that it has been done very concertedly over a long period of time. So they have mountains of data—of course, no privacy concerns, etc, etc—and they're managing despite the very stringent restrictions that the US imposed in terms of their access to advanced semiconductors to come up with various breakthroughs—of course, way more costly. But then on the other hand of the equation, actually, they do have a lot of energy. And when you think about the rollout of AI and its ability to lead to productivity gains, you also have to think of a basic resource, which is electricity, that goes into producing all of these data centers. And there is a massive chokepoint—I'm using your word [Eddie] and rooting for your book—a massive chokepoint there on US capabilities in terms of its grid. And the state competition and difficulties and the amount of investment and long lead time of actually upgrading in order to be able to roll out all of these data centers—and of course you don't want to put these data centers, from a national security point of view, anywhere else in the world. So its not as clear-cut to me that the US advantages, even in AI, is so overwhelmingly clear as maybe the US would have liked it to be. And I was in Washington during the week of The DeepSeek announcement, and I did feel a genuine sort of pull back. Also what I'm observing as someone who is very unique in being able to have the trust in Washington as well as the trust in Beijing, is that the two sides are both underestimating each other, and also they are not talking. And so you now have on top of that two leaders that both want to answer history's books and this is a very powerful combination for a lot of uncertainty. And it seems like the US is pulling back and losing some of that leverage that they thought they had in the trade negotiations. My expectation would be that they will put the pedal even harder on the tech front. So this is a multi-domain and continuously-moving feast that we hopefully are untangling a bit for the audience today.

**Karen Kornbluh 49:45**

Yes and everyone should know that every time you use the word 'decoupling' Diana gets a dollar, and every time you use the word 'chokepoint' Eddie does. Okay so someone has sent us some really good targeted questions for individual panelists which is very helpful. So Anin, can the US invest more in critical minerals in Indonesia?

**Anindya Bakrie 54:50**

Indeed, I think as I mentioned—you can actually—not double-down but triple down. The US could invest in the mines of critical minerals and help to process it at least halfway before sending it, for example, to the US, closer to the customers. Lets just say we talk about batteries to start with. But the second thing also—Indonesia is embarking on serious energy transition movements. So in the next 15 years we're going to be deploying about 103 gigawats of power, in which 75 percent of that is using renewable energy and 10 percent of it will be nuclear. So you can imagine the US can also be part of processing and using cleaner energy. I know its not the favorite thing right now, the president of the United States, but in the long run it is infinite resources—we also have oil and gas and coal, they are finite. And lastly, I think that protecting biodiversity has its pros—for example, BP invested about $8 billion in carbon capture in one location in Indonesia, and ExxonMobil another, I think $12 billion somewhere else. So I think US can really, kind of like be a real player in this space, and also building the stability on the Indo-Pacific side, which, of course, helps the security. So it's almost like helping Southeast Asia on the food resilience and also energy resilience is one probably good narrative for the US to play in this trade negotiation.

**Karen Kornbluh 55:45**

Great. Okay, and so Eddie, what's the most underappreciated risk you see right now that could blindside global trade or security?

**Eddie Fishman 56:32**

Yeah, I think, I don't mean to repeat what I said, but yeah, I do think retaliation. I think this is something that—I've gone through this whole conference, I also attended IMF spring meetings two weeks ago in Washington—everyone's talking about "what's Trump going to do next?" And there's not enough realization that there are other players in this game, and that when you think about it from the military side, like you always worry about miscalculation, we don't know exactly what the other side is going to do. I think that's exactly what's playing out right now with China. You see that Xi Jinping has his own domestic politics. He doesn't want to be seen to be backing down. The Chinese people have rallied around Xi and the government in this sort of economic confrontation. And so I worry that even if you know Trump says, "Okay, actually, I was just kidding, you know, time to de-escalate." You don't know exactly how this is going to play out. And it's not just US policy that matters.

**Karen Kornbluh 57:22**

Okay, great. And then just these rapid fire questions, one for Diana, one for Simon, to close us out. Diana, what's the one area where you think Western investors or policy makers are still underestimating China's resilience or strategy? Is there one specific thing that would surprise us all that you know about?

**Diana Choyleva 57:42**

What I think is largely underestimated in the West is China's push for boosting consumer spending and actually, China doing the right structural changes necessary for that to take hold.

**Karen Kornbluh 57:59**

Great. And Simon, somebody has has said that we have no balance about the benefits of Trump's position. And so I wonder if you could paint a picture for us of how this could all turn out really well, like if —pull out the best case scenario for us of how this results in more jobs in the US or more manufacturing advantage vis-a-vis China, in the national security - or any piece of that you want to maybe that's too much.

**Simon Johnson 58:28**

I think that's a very fair question, actually. And I think we should talk about this more. And I think Secretary Bessent anticipated a lot of this yesterday morning. You know, the best case scenario in one in which you get deals that are meaningful deals, not sort of show deals. And I think Anin talked about it, you know the US wants to sell more soybeans. We were absolutely want to sell more LNG. These are strengths that we have. We also want to integrate—we want to be part of data service provision and the AI future that is tailored for every country. So it's not one size fits all, but there'll be an Indonesia type solution, and the US will want to be part of that, and US companies will want to be part of that. And so there are non tariff barriers that might keep us out, and those can also be negotiated as part of a deal. I think, though—so deals and lower tariffs, and maybe tariffs end up lower than where they started. The Europeans are offering a zero—on the industrial side—zero tariff for zero tariff, which they offered before, they're offering again. If you package it with some other things, I think it could be quite appealing.

**Karen Kornbluh 59:24**

And then we get some scale that answers Diana's question.

**Simon Johnson 59:27**

Right, but—and then Michael Strain from the American Enterprise Institute has written very clearly on this—and I recommend his writings to everybody here. Even if we get all of those things, it's not gonna be enough to generate more good jobs across America. You need something else. You need some kicker in terms of innovation. And the innovation has to come through into commercialization, and that has to be not just in California and in Massachusetts. It has to be spread across the country. So those are things that are discussed. There's bipartisan support for that, the CHIPS and Science Act of 2022 had more than 60-64 Senators, I think, supporting it. So there is a lot of interest in combining that with good solutions, good outcomes on the trade front. But I think you need at least those two legs working together. And I think the concern is that we might just get one, or we might get neither fully, and then the disappointment in terms of jobs is going to feed more political frustration, and we don't know where that's going to lead.

**Karen Kornbluh 1:00:25**

This has been a fabulous conversation. Thank you all so much.

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