



# 2026 GLOBAL CONFERENCE

## LEADING IN A NEW ERA



# TRADEWINDS: NAVIGATING ECONOMIC UNCERTAINTY

**Gerard Baker** 00:03

Good morning, everyone. Welcome. Can you hear me? Is this working? Yeah. Welcome to this session. I'm Gerry Baker. I'm editor-at-large of *The Wall Street Journal*. Despite my accent, I'm actually American and based in New York. The title of this session is "Navigating Economic Uncertainty". Now, I don't know if the geniuses at Milken intended the pun when they drew up these sessions and when they drew up the titles for these sessions, but the word navigating obviously has probably rarely had more saliency than it has right now in the current circumstances we find ourselves in for the world economy, with obviously the continuing blockage to global trade, especially to energy trade from the blockage of the Strait of Hormuz and the ongoing conflict, on again, off again conflict, between the United States, and Israel and Iran. And I think obviously it's a good introduction to thinking about this broad topic about trade, about economic uncertainty, because it is, of course, the most immediate and striking and kinetic example of the kind of disruptions to the global trading system that we've become very familiar with in the last few years. Those disruptions being major geopolitical events like wars, major political shifts in countries away from free trade, open markets, the sort that we've seen particularly in the United States, but also in some other countries too, with a move away from the globalized system towards more managed trade and tariffs. Plus the other disruptions, all this came, of course, on top of the disruptions that we saw with COVID-19 and the desire by companies, by businesses and governments indeed, to improve the security of supply chains with all of the implications that that has for global trade. And then on top of all that, of course, we're dealing with technological changes, artificial intelligence, all of that will come up. So, we are in a period, obviously, of fairly dramatic disruption to global economic integration. And people talk about the age of de-globalization. We've had 30 years of the most remarkable expansion of global trade with the end of the Cold War, the emergence of China, the integration of the global economy and labor, not only goods and services, but labor and capital as well. And people talk about now we're in a period of de-globalization because of all these disruptions, and yet the actual numbers so far, as we know, don't necessarily support that proposition, that globalization is going into reverse, that we're seeing a period of de-globalization. And that's one of the things I want to get into. Anyway, we've got a terrific panel, a mix of government, private sector discussants, who are going to delve deep into this topic. I'll introduce them very briefly because you know them, I'm sure. We have Whitney Baird, president and CEO of the US Council for International Business. Xavier Bettel, Deputy Prime Minister, to my immediate left, Minister for Foreign Affairs and Foreign Trade of the Grand Duchy of Luxembourg. John Denton, who's the Secretary General of the International Chamber of Commerce. Francisco Pérez Mackenna, Minister of Foreign Affairs of Chile, and

Michael Roberts, CEO of HSBC Bank's Corporate and Institutional Banking. So again, a broad range of geographic representation as well as sectoral representation. So I'm going to get straight into it by asking all of you to respond to that introduction that I made and that introductory question really, which is, as we work through these disruptions and we see all these extraordinary political, economic, business, technological disruptions that we're seeing to the global economy. Is that period of globalization that we've seen over the last 30 years actually reversing? Are we entering a period of de-globalization? Are we entering a period where countries become much more focused on reshoring their supply chains, and we become much more insular? Or have we perhaps tended to, especially we in the media, who are famously good at exaggerating and simplifying, have we maybe exaggerated and simplified the phenomena that we've seen in the last few years? So let me start with you, Whitney. Whitney Baird, give us your take on where we stand with all of these disruptions and what impact it is having on the entirety of the global economic picture.

**Whitney Baird** 04:36

The entirety.

**Gerard Baker** 04:36

Pick any part you like.

**Whitney Baird** 04:36

That's exactly. Maybe a bit more on the United States. No, I think we are in, I wouldn't say unprecedented times, but we certainly are at an inflection point, whether you're looking short, medium, or long-term. And I do think it's helpful to look more long-term. I do think we are seeing a fundamental reassessment of, as they say, the rules-based global trading market economies, the trade apparatus. I think from the perspective of, and I don't represent the U.S. government, but I do think from the perspective of the Trump administration, and frankly, the administrations that came just before, I think there has been a reassessment of the U.S. place and support for the WTO and other multilateral institutions that I think from their perspective, didn't serve the United States fully and didn't successfully discipline non-market economies, like China, that really didn't play by the rules. So they are reassessing and I'd say wishing for a change in the way this is done. At the same time, we do have a fundamental, I think, reassessment in the U.S. engaging in industrial policy in a way that I never saw in my long diplomatic career. Because there's, I think, an increasing recognition that economic security is national security. And with COVID and other issues, there's a reassessment of how businesses supply and what supply chains look like and how to make them more resilient. On the other hand, I would say, if you look at the numbers, the US economy is, even with all of these disruptions, geo-economic and others, the US economy has proved really resilient. On the other hand, I do think business loathes uncertainty, and we are in a great period of uncertainty, whether it is the tariff agenda or whether it is the geopolitical situation globally. So I would say we have to keep a close eye going forward.

**Gerard Baker** 06:45

Before I come to the others, since you gamely took up the baton of what the US, not in any way saying you're endorsing it, but you rose the subject of what Donald Trump has done, and in particular, the thinking behind maybe shifting away, as you say, from some of those institutions and arrangements that the US has been engaged in for the last 30 years. And as you say, a large part of that is driven, the principle behind this is to reshore economic activity, to re-industrialize the United States. It's early days, obviously, but is it working?

**Whitney Baird** 07:16

I think, yes. I mean, I think to a certain extent, some of it is. But I do think that a lot of the progress can be derailed by cost issues. Our membership are globally present US companies, so they are invested globally, and they have global supply chains. And whether it's the geopolitical situation and what that looks like short, medium, and long term with the price of oil and other inputs, or the trading relationship with China, where many of key and specific inputs come from, and just global economic performance, I think, and the tariff agenda and where that goes and what kind of agreements are cut. And then maybe if I can pivot to the larger multilateral system. It's an administration that is, I think, admittedly quite skeptical of multilateral institutions as a means to solve problems. I think from the business perspective, we would very much like to see multilateral institutions used because there's a level of efficiency there and consistency, particularly, across the board in regulatory and other issues. So I would say it's maybe yes, to a certain extent, it's too early to say, and it certainly could be upended by the geopolitics.

**Gerard Baker** 08:41

Let me come to Xavier Bettel, Deputy Prime Minister, Minister for Foreign Affairs and Trade from Luxembourg. You have the honor here of representing the European Union—

**Xavier Bettel** 08:51

—Yeah.

**Gerard Baker** 08:52

On this panel. The European Union, it's fair to say, has been very much in the target of President Trump's, very much in his crosshairs, including just once again, with another threat of new tariffs on cars just recently. And of course, Europe has responded. The European Union's success, such as it is, has been built in very large part on, obviously, trade within the European Union, a single market, but also, with relying on significant export markets. How is the European Union adjusting to this new world?

**Xavier Bettel** 09:27

It's not that easy, as we can guess, because there are a few things. The first thing is, I think that Vice President Vance did a wake-up call at Munich when he told us that we should, in fact, be more independent. And so, for a lot of us, it was a wake-up call also to know that we have partners, but it's also good to be able to build on yourself. Which is good for Europe on one side to have a wake-up call, but a fact that we realized that we haven't prepared it for a long time. That's the first thing. Unpredictability is no good for no one, so I hope that we will be able to find predictability at the end of the day. It's not good for politicians. Yesterday, we had lunch with some colleagues here around the table, and the conclusion I took was that businesses do not need politics to do business, but they prefer when we behave. And for the moment, it's just the fact that it's so unpredictable that it's difficult. I'm leaving tonight because I have tomorrow meetings also with CEOs because we don't know how the prices of the gas will be and the petrol will be for the next days. Unpredictability for economy, but also for people. And so, it's the OPEC now, it's decisions of the Emiratis to leave the OPEC. Will this have an impact on the prices? Will this be— Et cetera. So, it's so much unpredictable, which is, I think, not good, but at the end of the day, businesses, you can do businesses without having good decisions, but it helps you if we are behaving well. And for the moment, it's a bit unpredictable even for that.

**Gerard Baker** 11:00

I'll ask the minister from Chile a similar question, really, and how you're dealing with the challenges of this new climate from in Chile and more broadly in the Americas. But let me quickly come to Michael Roberts on exactly the point that Xavier makes, which is, and indeed, it's the other part of the title of the panel is uncertainty.

**Michael Roberts** 11:23

Mm-hmm.

**Gerard Baker** 11:26

It's not an exaggeration to say that we're living in a period of extraordinary policy, geopolitical, and all kinds of other uncertainty. And we all were there last year, just a year ago when we had Liberation Day and President Trump announced his tariffs and the stock market fell and everybody thought, "Oh my God, this is a disaster. This is going to be a catastrophe for the economy." And yet, there seems to be remarkable, business seems to be—quite resilient. What's going on?

**Michael Roberts** 11:49

Yeah. And that word, I think, is an important one. It is resilience. We're the world's largest trade bank. We process about a \$1 trillion of trade per year, \$2.5 billion per day. So we see a lot. We cover about 90 percent of the world's GDP. We recently did a survey. In fact, we did two surveys, one right after Liberation Day and another one right in November. And we asked the question, "Are you going to continue with global trade?" Answer is resoundingly yes. "What are the new factors that you need to consider?" 90 percent said uncertainty. They have to bring uncertainty into their management process. And this is for an area that which most companies considered as very status quo, antique before. No one really worried about supply chains. Maybe a little bit post-COVID, obviously, but it wasn't probably the number one priority within most companies. Today, it is a number one priority. So I would say, they are very focused on continuing. They're very focused on figuring out the uncertainties. I think many of them are still on that journey to try to figure out how to navigate all the uncertainties. It's, to your point, not easy. Certainly, though, they've decided they're going to have to take more risks because they see growth is in their international businesses. I don't know any company that says, "I want to be a domestic business only." I don't think there's any company in the world that I've ever met. They all want to expand globally. How they do so is now the bigger question, but I think they'll continue to be very focused on it, and I think they will look at different ways to shore up their supply chains, different ways to navigate the uncertainties. There will be more regional trade versus global trade. I think supply chains will be brought in because they got too extended before, and that was really a post-COVID event, to be honest, more than Liberation Day.

**Gerard Baker** 13:33

Uncertainty is a cost. Just a quick follow-up. Uncertainty really is a cost. It requires building in redundancies and latencies—

**Michael Roberts** 13:40

—It does.

**Gerard Baker** 13:41

All that kind of stuff. Are you seeing that with your clients?

**Michael Roberts** 13:43

Definitely that's their view, is that costs are going up, not only because of tariffs. Tariffs is a big part of it, obviously. But away from the US, they're seeing freight costs go up. They're seeing, to your point, redundancy costs going up. So it is becoming more expensive. And what are they doing? They're trying to

either become more efficient in how they produce, which is probably the first step they make. Secondly, they're looking at how do they put pressure on their suppliers. So it cascades down the whole chain, and that's very difficult when you're at the bottom of the chain because you get a lot of pressure, and that's where a lot of the stress and strain is. And thirdly, they're passing on some of the costs to their buyers. They have to. And so that is inflationary. That will continue to be inflationary. It doesn't stop, however, I think, the importance of international trade in most companies' overall strategies. It is going to continue to be a big part of their strategy. It will be, however, done differently going forward.

**Gerard Baker** 14:39

Minister Pérez Mackenna, from Chile. Give us your perspective on this rapidly changed world that we're seeing in terms of both uncertainty and increasing, if you like, protectionism. It may be a little bit too grand a word to describe it, but certainly of a retreat away from the sort of globalized system, but again, from which your country has obviously benefited significantly in the last 20 years.

**Francisco Pérez Mackenna** 15:06

Well, our country is pretty open in terms of trade, and that's not going to change. We're a small country. We have basically quite a concentrated export base, luckily in mining, and particularly linked to the energy transition. So in that regard, we're well-positioned. We have to import most of our oil. But there's a comment I would like to make regarding this going back to isolation in terms of production or independence. I think the bad part of the story is that costs may go up. The question is whether risks are going down or not. Because one of the things that we learned in COVID is that we couldn't rely on supply chain systems as we thought we would, where prices were going to define what you get. That didn't happen. And the fact that we are diversifying our sources, of course, at a higher cost, has at least the benefit of eventually reducing the discount rate, if you wish. And the question is on whether we're going to come ahead or not in terms of net present value. I don't think that it's that clear that we're going to lose in this process because we've learned that what we thought was available was not really fully available. So that's the first point I would like to raise. I mean, the typical example I give, you don't put all your money in the bank that pays you the highest interest. You diversify your investments, and you don't consider the fact that when you buy a deposit of a bank that's less risky but pays less, you're losing money, really. You're getting a fair trade, a fair deal for that. The same holds true for the supply chain systems. You do not necessarily domicile all your supplies from the same location just because it's the cheapest. Something goes wrong there, and you realize all of a sudden that's not really at that—Was not as cheap as you thought. So there's an element of that in what we're living now and as a consequence of COVID, and there are good things about it. The second thing is that, at least in particular in our case, if you look at what has happened to our export matrix in the last 40 years, hasn't changed much. But the buyers have concentrated, and to some extent, if you dig in, you realize that there's some certain distortions that explain why this is happening. And distortions have to do with pricing certain processes upstream or downstream, not necessarily at the fair cost, but sometimes eventually at prices that are below cost. And that hasn't allowed really the—we don't see the diversification we should see in the supply chain system because of that. So particularly, for example, in the case of copper with smelters. We are the largest copper exporter of the world, but when you look at what we really export, copper concentrate is a very

high component of what we do. And this is something that, if we look forward and see how much money we're going to be investing in mining and [inaudible] this particular sector, that's a point of concern going forward.

**Gerard Baker 18:15**

John Denton of the International Chamber of Commerce, what's your overall take on where we are in this process of global integration or de-globalization? Are you expecting there to be significant retrenchment from that, or are we going through a pause? What's going on?

**John Denton 18:38**

Well, just listening to the colleagues on the panel, I think it's pretty clear that when you look at the data points, trade has not stopped. The kind of false narrative that's the end of the system, in a way, has been allowed to take root, but actually it's not true. Trade increased last year in goods. It actually increased exponentially in services. But what you're seeing, and I think Michael picked this up, and this is something we see. We're in 170 countries, and we enable something like \$17.5 trillion worth of economic activity every year. We actually provide a lot of the infrastructure that supports the trading system. But what you're seeing is a level of inefficiency, which is now creeping in, and we talk about uncertainty. Well, there is a price to uncertainty. We did some work, before this crazy WTO meeting in Cameroon, to show people this uncertainty had almost like a tax on global business of about \$250 billion last year. And looking forward, in a negative way, it's going to be about \$380 billion. That's actually activity that's not taking place. That's opportunities to employ people that's not happening. So there are real consequences in the real economy as a consequence of this shifting nature of the global system itself. What we have to do, and what's pretty clear is that this kind of consensus-based multilateralism that everyone seems so happy with is not working. If there's no better example than what happened in Yaoundé at MC14, the ministerial, they just didn't reach agreement. And what happened was a bunch of countries actually moved away and started setting up what's called a plurilateral to move forward. We think there's going to be more of that, and one of the challenges, of course, is does that become unmoored? Do you actually have a series of fragmentations there or can we moor that? So, what we're actually doing, again, we're not waiting for governments because governments will not be able to reach consensus.

We are actually seeing what we can do to upgrade the infrastructure that supports global trade to enable more economic activity. And frankly, we don't need to wait. We have agency to do that because we're an institution, not-for-profit, for purpose. We set the rules for trade finance. We enable trade. That's \$10 trillion. We actually have the basic contracts, Incoterms. We settle disputes through the ICC. We actually have all this stuff. We're the ones digitizing trade. So we will go on. But we are seeing particular issues now which we need to focus on. One of the big issues is going to be, because of the tension here with this regionalization and new blocks, assuring a level of alignment, never integration, because that won't happen, and trying to reduce the uncertainty to the extent we can and put some order into that. So that's the challenge we see.

**Gerard Baker** 21:25

Let's talk about the immediate topic that, of course, is of great interest right now, which is the disruption to trade that we're seeing as a result of the war with Iran. And John, I think you've got some work on that. You've been looking at this, obviously, quite closely, and I also want to ask the ministers in particular what the impact is so far. But obviously, we've seen the immediate effect, the price effect with oil prices, and oil and natural gas prices rising. There are significant concerns about physical supply shortages, and I just wonder, John, can you give us a sense of where we are in that process and how long. We've heard these stories that airlines are going to run out of jet fuel in the next few months, that all kinds of challenges. Give us a sense of where we are.

**John Denton** 22:10

Well, let me be very direct. We are looking down the line at a very significant food crisis, because the whole discussion on Hormuz is obviously shrouded in the behavior of the combatants and actually overwhelmed by oil and gas. What's unfocused on is fertilizer. And there's different components of that and different elements which actually create the fertilizer. What people hadn't fully realized was the importance of the Strait of Hormuz for the movement of fertilizer, and in particular, in developing and emerging economies. Now, because we are on the ground in Africa, on the ground in Latin America and everywhere, we see this because we know what's happening with farmers' planting regimes. Farmers are now thinking about, if not stopping planting, or else planting without fertilizer, because you've got a perfect storm. You've got the cost going up and a supply crisis. The combination of the two gives rise to this cataclysmic challenge we've got, which is a real shock to the real economy. And what we're going to start seeing in about six months' time is food scarcity, which will be at a level around 2008, 2009. So, by the way, we're trying to actually get policymakers here to focus on that. We're not going to fix the war. But what we are trying to do at the moment is what we did at the ICC. Some of you might know, but the ICC, we created the concept of the Black Sea Agreement for the UN.

**Gerard Baker** 23:34

Right.

**John Denton** 23:35

Which actually, because we saw again the impact on food prices, and immediately we were able to apply that mechanism. Future prices on food went down, and we actually restored order. What's happening here, it's different because the combatants are different involved. But what we're trying to do, again, is reestablish the trade route. It's complicated because we are absolutely committed to freedom of navigation. But also, we know that we've got to get a mechanism in place. So that's what I've been working on. And frankly, the UN Secretary General has actually launched a similar approach that we did in the Black Sea Agreement. It's called the UNSG's Strait of Hormuz Task Force, and I'm on that with UNOPS. We've built a mechanism which will enable the combatants or the parties involved and the Gulf States,

once confidence is built, and sooner rather than later we hope, to actually allow for the ships to come through. There are fewer fertilizer ships that need to get through, but ultimately, that can build confidence.

**Gerard Baker** 24:33

Right.

**John Denton** 24:34

But we need deconfliction first before we can—

**Gerard Baker** 24:35

And are you saying that, you said within six months we could see really serious food shortages. Now, is that assuming the war continue or the blockage of the strait continue, or is that already built in?

**John Denton** 24:46

Capacity has already come out of the market.

**Gerard Baker** 24:48

Right.

**John Denton** 24:49

And so what we're trying to do at the moment is get governments, but also international financial institutions, MDB, multilateral development banks, to focus on workarounds here. It's very different environment than what we saw in '18, '19 and 2022, when there was much more coherence in the global world. There's less coherence, and actually, some of the principal and focus agencies like the World Food Program are actually not as strong as they were. So trying to build that global alliance to fight this and to enable food security not to become the huge political disruptor that it can be, but also to stop people starving, frankly, that's actually a bit of a challenge.

**Gerard Baker** 25:28

Minister Bettel from Luxembourg, tell us what you're seeing so far in terms of the impact on your economy, on the broader European economy from the disruption caused by the war and the blockage of the Strait of Hormuz.

**Xavier Bettel** 25:43

I'm not the specialist now to tell you the figures, but the last poll says that even this uncertainty is going to be more expensive than tariffs. Just to tell you. So the impact of this uncertainty is huge. We just spoke, and John just spoke about the fertilizer. I just want to remind also on something else. Everybody's very stressed about the Strait of Hormuz because of energy prices, but there is also humanitarian aid. I'm not speaking about fertilizer, humanitarian aid. Countries in Lebanon and other places where they need humanitarian aid, which is blocked. So we don't need to wait six months. It will be even quicker. And the fact is of this instability, the impact will—We just came out of the COVID crisis, where we had this pandemic, where we were all shaken. We all had to support with public money also our economies to be able to survive. And then we have this instability now and this uncertainty. And, you know, because we speak now about Hormuz, but Ukraine and Russia is still the same. As you know, European Union, we really support Ukraine, but we still don't know how long it will take. And as you said before, I think it was you, you said about the fact that we can find agreements like in Yaoundé when some people leave the room, or we had the same with Viktor Orbán in Hungary, who was blocking some decisions. So he was obliged to go to the loo sometimes so that we were able to take decisions without him. This is how it works sometimes.

**Gerard Baker** 27:14

Did you serve him a lot of iced tea and coffee— to activate his bladder?

**Xavier Bettel** 27:19

I don't know, but we are always creative. But just—I just want to tell you that this uncertainty, and when I told you about the losses of money because of this uncertainty, it's not only on European side. I try again to explain, it's a lose-lose situation. It's not a win-win situation. Even if some people try to believe that it's a win situation, nobody will be the winner at the end. The economy, okay, we need some rules. And at the end of the day, I see it, for example, as European Union, we have common challenges. We have competitors that are not fair, to be very honest. There are some help, state help in some countries which are not fair, common to European rules, et cetera. So for me, I believe in globalization, but we need also that people understand why globalization is good. When I speak to my 83-years-old mom, she doesn't know. She thinks globalization is an enemy. I have to tell her Mercosur, for example, everything, it's all negative. Instead of speaking about the opportunity and the chance that we have, we just speak about the problems and the troubles that we have. So I want to be optimistic. I'm sure that, and I told you this wake-up call from Vance was a bit a wake-up call, but also an opportunity. European Union was built after Second World War, and is a peace project, and we are still in peace. And when you see around Ukraine, you see ex-Yugoslavia. Around us, you have wars. So I believe that we will be stronger after a crisis, but

we need to see the end of the crisis. And for the moment, I don't see it. And this will harm, and the difference between north and south are just getting bigger, and—I'm optimistic, but I don't know how long I will be able to stay optimistic.

**Gerard Baker** 29:05

Stubbornly optimistic.

**Xavier Bettel** 29:07

I try.

**Gerard Baker** 29:08

At least for the next 22 minutes, let's hope.

**Xavier Bettel** 29:09

Okay.

**Gerard Baker** 29:10

Minister Pérez, can you tell us what's—

**Xavier Bettel** 29:13

I'm sorry for my team afterwards.

**Gerard Baker** 29:16

The impact so far of the war and of the blockage on your economy and going forward, what you might expect if this crisis continues.

**Francisco Pérez Mackenna** 29:25

Well, short term, of course, price of oil and gas has skyrocketed. This is probably the biggest jump that I can recall. Larger in percentage-wise than when the OPEC was formed back in 1973, I think, or the Iran-Iraq War of '78. That was a 50 percent jump. This is even more significant. Those days, the impact in the Chile and Hormuz were quite significant, more so than now. So I guess to some extent, we have diversified away from the cost of fuels. But I think that there are reasons to be optimistic long term, and this has to do with the revolution we're seeing in technology. Coming out of AI. Another aspect, let me tell you a true story. I was in the south of Chile three weeks ago visiting a plant that is producing gasoline out of wind. Now it's a prototype. It's a \$100 million investment already. It's not tiny. Of course, the cost is high, but they transform wind into hydrogen, green hydrogen. From there, they move with the CO2 to methanol, and they refine the methanol to produce gasoline that's being used by Porsche. Exported. It's not a big amount of fuel, of course, at this state, but that we have been able, in the 21st century, to produce gasoline out of wind is something that blows my mind. It's something that I would have never imagined was possible. Now, the bad part of the story, the CO2 is coming. Of course, Porsche, Germans, coming out of the beer producer, because they produce more CO2 than they need. But they're installing a machine there that will capture CO2 from the atmosphere. So that will be a real, it's almost a miracle. So that's the kind of power that we're going to get from this technological revolution, and going back to the idea of whether north and south will further distance themselves or the gap will be closed. The gap started opening 200 years ago. The rich countries then were twice as rich as the poor countries in terms of per capitals. That difference jumped up to 80. But I think that with this technological revolution, we'll have a chance to close the gap again. So, long term, I'm optimistic.

**Gerard Baker** 31:45

Whitney, a slight change of geographic topic. The big question that despite these immediate questions, the big question always looming in the background is the US-China relationship.

**Whitney Baird** 31:57

Mm-hmm.

**Gerard Baker** 31:58

It's obviously the most important bilateral economic relationship in the world. For years and years, the US pursued a policy of strategic engagement. You, in your opening response to my opening question, rightly pointed out that sometimes that's maybe been exploited by some countries, including China to some extent. President Trump and President Xi are about to meet again at some point, we assume, if it's not postponed again. President Trump came in in his first term with a much more confrontational approach, I think it's fair to say, with China. Second term seems to be perhaps an acknowledgment of the realities such as the interdependence of the US and Chinese economy, particularly when President Trump realized how important the rare earths were for the US economy. Seems to be less confrontational. How do you see that relationship unfolding now?

**Whitney Baird 32:47**

So, it's hard to have a crystal ball. The president, I think, is let's say predictable in his unpredictability. That said, I think this administration has a number of China hawks in it. I actually don't think the president is one of them. I think as you say, he's a pragmatist, and I think he likes to strike deals. So if you're asking me to predict, I think my assumption is the work will be done ahead of time so that there is some kind of deal announced when they do meet. And yeah, it's not been quite nailed down as far as I understand. It may be put off again, but—

**Gerard Baker 33:35**

—I'm thinking more broadly about that relationship.

**Whitney Baird 33:36**

Yeah.

**Gerard Baker 33:37**

Is it going to be one of fundamentally of confrontation and disengagement and decoupling? And de-risking is the vogue phrase, or do you think we might actually be in another period of wary but continuing mutual cooperation?

**Whitney Baird 33:54**

So I think if you were asking most US companies that they would like to see a level of status quo with that relationship return. Across the board, there are inputs that China produces that at this point can't be reproduced elsewhere. I do think that China's threats on critical minerals definitely got the administration's attention, and you see a strong pivot with this administration pushing investment and, how should I say, diversifying the supply chain in critical minerals, which I think is quite important. But I do think broadly speaking for US business, the best outcome will be something that maintains, as you say, maybe a wary respect, some guardrails, and a continuation of a relatively predictable set of supply chains. At the same time, I do think, broadly speaking, the administration will continue, really the work of the last several administrations, which is looking at ways to lessen US dependence on China as a source of inputs and production. And that goes right within the administration. Again, the administration's avowed desire to increase manufacturing output in the US and investment in the US.

**Gerard Baker 35:28**

Michael, from your perspective, are you seeing this decoupling? Is that going on?

**Michael Roberts** 35:33

Well, I think when you consider China and its role in the world economy, it's going to be very impactful, even more so going forward. And I think it behooves everyone to read the most recent five-year plan to determine what the Chinese have in mind, and they're very much focused on taking their production capacity out of China, exporting that capacity, as well as their know-how on capital. And so it's no longer going to be just a hub for exportation. It's going to be exporting production capacity elsewhere. And you see it already happening today, where companies are coming out of China very, very rapidly, raising an enormous amount of capital through Hong Kong, principally, and using that as a springboard to go global. And so, for instance, there are 20 EV companies in China today. All of those EV companies produce probably under the production cost of any Western company, and they need to go out of China because none of them can actually make money in China because of the intense competition there. This concept of involution that we hear, and also because there's weak demand. So where are they going to go? They're going to go around the world, and they're going to set up operations. So BYD, for instance, today produces 4 million, 500 cars, a million of which are now produced for export. They're going to double and triple that going forward. So that's really what the changing world scenario will be, in that in the past, it was all, "Let's just put tariffs on China." That's no longer going to work anymore. So I think from a policy perspective, it needs to change. I just think for all companies who are operating and competing against Chinese around the world, they need to understand this massive amount of capital and production capacity is coming out now. It will come out and in a very intensive way for the next 15, 20 years, and that's going to be, I think, the most sizable change in the world economic order going forward.

**John Denton** 37:20

But I think just on that—

**Gerard Baker** 37:21

—Yeah, go. Yeah, please, John—

**John Denton** 37:23

—And Xavier made the point as well, I mean, about fair competition or unfair competition, and Michael actually draws attention to this. One of the challenges is the economic model, which is continuing to be pursued by China, is really export-driven. I mean, the inability to shift the focus to internal consumption—

**Gerard Baker** 37:41

—Right.

**John Denton** 37:42

Is actually causing a lot of the instability.

**Gerard Baker** 37:42

Right.

**John Denton** 37:44

And this is a conversation we have with Chinese government, Chinese business. The reality is that even admission to the WTO was based on the heroic assumption that China would moderate and modulate its economic model to align it more with the kind of open markets model which was actually underpinning the WTO agreement. It hasn't done it effectively. And that created all sorts of tension within the system itself. So there is a real challenge here because the other point I think we're discussing is you're seeing quite different trade patterns and economic patterns anyway. I'm Australian, so Australia's largest trading partner is China. Just a fact. You think about the level of investment of China in Asia-Pacific or in ASEAN in particular. Decoupling from China is just like, it is never going to happen. Can you imagine Indonesia unpicking all the factories, et cetera? So it's not going to happen, so we actually have to work out how to live with this. But part of that is China has to change and actually evolve its economic model to be one much more aligned. And the reason I say that is that it's also in its interest because of the weighting now it has in the Global South for those economies to be productive as well. If they're going to swamp those economies and cause the sorts of problems that you see in Chile and other places, then that's actually not in their interest. So there's a few things that need to be realigned here, starting with a decision to actually seriously embrace a form of rebalancing of the Chinese economy. And as you know, we know more about what's happening in the US and the White House than we know what's happening in Beijing, in the political circle there. And that's one of the problems. There's not enough information. There's an information asymmetry between what we know and what's going on.

**Whitney Baird** 39:32

Yes.

**Gerard Baker** 39:33

We've got—Yes, go on, Whitney. Sorry, please.

**Whitney Baird** 39:34

Well, I was just going to say, but circling back to the multilateral system, the WTO, and others. What goes forward in the WTO? How do you operate in a world where it is absolutely unable to discipline this behavior over an extended period of time?

**Gerard Baker** 39:53

Yeah.

**Whitney Baird** 39:53

And this didn't start yesterday. This has been, in essence, China's policy since it joined the WTO. And again, yes, heroic assumption there, but that was really made in the very early days of President Xi and he has pursued a different path.

**Gerard Baker** 40:10

Minister Bettel, briefly.

**Xavier Bettel** 40:11

Just very short. The thing is, we don't need to be naive. The first thing is we know that China is a rival, but on the other hand, everybody's complaining about China. But as you said, President Trump is going to meet Xi. In Europe, they complain, and then the German Chancellor, The Spanish Prime Minister, they all go and visit Xi. So you can't say in Brussels, "We don't want," and in Beijing, you sign the agreements. So for me, it's important to be transparent and fair with them. And I remember when I was prime minister, I had long discussions with late Li Keqiang, who was Prime Minister of China, and I told him we need to be a level playing field because this is what we need is a level playing field. So, for example, I told him you cannot have state aid and we have, for example, and I know it's also not the most popular topic here, but for example, we have climate conditions in Europe that are strict, but it's also a goal, and so maybe we should have tariffs when you enter and you don't have—Because we just speak all the time about the fiscal issues, but there is also a social issue and also an environmental issue, and if you compare that and then you are able to have tariffs if you don't have the same criteria, so to be at least fair play. Because for the moment, people prefer if they choose an electrical car coming from China or solar panels coming from China or European, they check the price. They don't look, I'm sorry to say, they are not proud to buy. I'm sure if a product, people looking the price, and they don't look if it's made in Beijing or made in Berlin. It's nearly the same. Sounds the same.

**Xavier Bettel** 41:41

Sounds the same.

**Gerard Baker** 41:43

We've got very little time left. We've got a couple questions from the audience, which I do want to get to. This is a particularly good one, and anyone feel free to pick it up. Over the past few decades, globalization and trade integration have acted as powerful disinflationary forces. Today, with supply chain fragmentation and geopolitical shocks, how much of the current inflation should we now think of as structurally permanent rather than cyclical? And in a world where inflation is increasingly supply-constrained rather than demand-driven, what's it going to take for us to return to the sort of pre-2020 inflationary regime? Anyone want to take that?

**Xavier Bettel** 42:22

I didn't understand that question, so give it to—

**Gerard Baker** 42:25

—Well, is the inflation, as with supply chain disruption and all the things we've been talking about, is that a structural upward pressure on inflation, and how do we deal with it?

**Francisco Pérez Mackenna** 42:38

Yeah. Inflation at the end of the day is a fiscal problem. So it depends on what the—

**Gerard Baker** 42:42

Right.

**Francisco Pérez Mackenna** 42:43

It's a run on the money, basically. So, I don't think it has much to do with these factors. There's a one-time change maybe in the price level, but inflation as a permanent change in the price level, it's going to be dependent on what—

**Gerard** 42:57

—It depends, I suppose that you say it's a fiscal problem, it's a monetary. It's to some extent on the extent to which central banks accommodate it, right? Or whether they—

**Francisco Pérez Mackenna** 43:04

—And fiscal.

**Gerard Baker** 43:05

Yeah.

**Francisco Pérez Mackenna** 43:07

If you think it over, it's basically the inflation is the adjustment that is needed to make sure that the liabilities of the fiscal sector match its future surpluses. So at the end of the day, it's a fiscal problem. So it shouldn't be a long-term problem in this regard, I think.

**Gerard Baker** 43:28

Anyone else want to comment on structural inflation as a reality?

**John Denton** 43:31

Michael, but I'm with the minister. The reality is here. This is really driven very much by the behavior of central banks as well. But one of the challenges, of course, is a lot of central banks just do not have the firepower available. They kind of spent a lot, as you might recall—during COVID—you asked a very pertinent question of the minister from Luxembourg up front about European competitiveness. One of the things, and one of the reasons we are in this problem is a failure of a number of economic leaders to actually engage in how do you improve productivity and economic competitiveness. The big challenge as someone who sits in Europe, and works out of Europe is tariffs are a problem, but the lack of competitiveness of Europe and the internal barriers are greater. The reason I say that is if there was actually a serious approach to economic reform, then you could strengthen the balance sheets of a number of these economies, and there'd be much more opportunity to actually build the strategic autonomy, whatever else it is they need. So there is a problem here with a lack of economic leadership from the political leaders' club, with the exception, of course, of the Deputy Prime Minister of Luxembourg

**John Denton** 44:41

I would say. But I can certainly tell you that—

**Gerard Baker** 44:42

—Yeah, in Europe. Yeah

**John Denton** 44:43

Why is it that Canada, when it's confronting the reality that it has now, has to look internally? Because they hadn't done anything for 20 or 30 years in terms of the microeconomic reforms necessary. They can untap more value from that just by focusing on it politically—

**Gerard Baker** 44:56

—Right.

**John Denton** 44:57

And getting it done.

**Gerard Baker** 44:58

We've got very little time. There's one more topic which happily also comes up in a question which we haven't addressed, which I want to, which is technology, and obviously everybody's favorite topic, artificial intelligence. And there's this particular question addressed to you, Michael, which is about how HSBC is leveraging technology like blockchain—and AI to do its business differently. But I want to ask, and please answer that, but I want to ask you and anybody else who wants to answer this question, what is the impact of, obviously AI is transforming everything, what should we be looking for in terms of the impacts on global trade from AI? One of the big concerns that obviously very much drives economic relationships, particularly US-China right now, but it's true everywhere, is technology, transfer of technology, cyber security issues, things like that. Tell us a bit about how we can expect this world that we are rapidly moving into of AI-dominated economic activity, how that in particular is going to affect trade. But Michael, just quickly on the specific question on HSBC since that's—

**Michael Roberts** 46:03

—Yeah. From HSBC's perspective, we're very much a believer in the new wave of what I call tokenization digitization, which is upon us now. It's not going away. It will only accelerate, really driven by the GENIUS Act in the US. It will have a meaningful impact on financial services going forward. We are fully embracing it. We're going to be a leader in it. It will take some time to really roll out around the world, but it is definitely here. So payments will be tokenized. All asset classes will be tokenized. Everything will be put on a blockchain. It will take out friction cost. It will take out what I call laziness in the banking and the financial system. So, that'll be good for users of the banking system. So, that will be helpful and bring a lot of efficiencies. In terms of trade itself, the challenge in trade is that it's not the banks or the intermediaries. We can add AI every day. In fact, our head of trade who's sitting in the room will tell you we're focusing on trying to do our utmost to take out those friction costs. The problem really is all the custom houses and the various countries who have not adopted those. I could see a world in 10 years, if they do, everything will be done by agents. Everything will be done in a pass-through basis. There will be very, very little cost of the actual mechanism of financing trade. There'll be costs certainly, but it'll be much, much reduced. But it'll take a while to get there unless all the governments, I hope Chile and others in Luxembourg take the lead on this to allow us to really apply this technology. Because it'll be very beneficial if we can.

**Gerard Baker** 47:30

Whitney, can I just maybe quickly, there's been a lot of talk about the competition between the US and China as being kind of like an AI, like an arms race. It's even been compared directly by some imaginative commentators to the kind of nuclear arms race. That we are in this struggle to achieve AI advantage. How does that affect, again, the broader economic relationship or broader economic relationship with the United States and the rest of the world, this race to get the AI advantage ahead of other countries?

**Whitney Baird** 48:03

Is that to me?

**Gerard Baker** 48:04

To you, yeah. If you—

**Whitney Baird** 48:06

—So if you're asking me as an individual how I feel about AI and this global race and investment, as an American invested in the economy, I worry a little bit about bubbly aspects in the US economy just because of the enormous expenditures in AI investment. My larger set of concerns, though, are maybe the lack of coherent conversations at both the international and the national level about what this does mean at every level. The future of work, how companies adopt and then deploy, and the regulatory structure. So, if I could just sort of pivot back towards areas of opportunity. I think globally and certainly among, let's say, OECD economies, and a number of them represented here on stage, there is a real opportunity to take out some of the friction in doing business and improve competitiveness by taking on overlapping and

fragmented regulations. And that applies to AI, too, and just some larger-term conversations that you see going on at conferences like this, but maybe at a more official level. What does this look like?

**Gerard Baker** 49:23

Yeah.

**Whitney Baird** 49:24

What's an appropriate regulatory structure that encourages innovation and yet provides the kind of guardrails that protect people? I think there's a lot of opportunity in AI. I think a lot of it is yet to be seen.

**Gerard Baker** 49:37

Okay. I suppose what I'm getting at is AI does—Obviously, we're all starting to see the dramatic productivity improvements it's having, but it does seem to me that it's possible to view AI also as another factor that might actually make societies and countries more inward-looking. We're all dealing with this. We're all still digesting the implications of the revelations we had a few weeks ago about Mythos, the Anthropic model, and how that exploits vulnerabilities. And I wonder whether as we become so much more exposed to this, and maybe this is the final question, and any of you please answer it, will that have the effect of making countries and societies actually somewhat more inward-looking and more protective given the other disruptions that AI is going to do to the labor markets and everything else? Go on.

**John Denton** 50:29

First of all, the way Whitney described it, I think, is a pretty fair representation. There is an absence at the moment of meaningful global conversations about how to make all this work or fit together. One of the realities is data sovereignty. You are not seeing the Global South welcome the loss of sovereignty over issues to do with access to data because they think they will be net losers. So that, unless we actually find a way to work that through, you're going to find there'll be inhibitors to the deployment of artificial intelligence on a global basis. So there needs to be an avenue, an enablement of that. But there also has to be recognition that there needs to be some kind of norms emerging. But the current model for those norms, which are basically governments, will not work. You're going to have to have governments, private sector, technologists. You're going to have a whole lot of people involved in that to create those norms because of the rapidly changing nature of the technological platform itself. But you can't lose sight of the fact that the global economy is more than the US and China. It actually does involve developing and emerging economies in Africa and elsewhere. They need to not see themselves as net losers but have opportunity here.

**Gerard Baker** 51:36

We are out of time, but I think we should all take our inspiration from the minister from Luxembourg and say that we're all optimistic despite everything. Thank you very much, indeed. Please join me in thanking our panel.

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