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JOINT CONFERENCE: SUMMARY

Implications of a Rapidly Changing World: Technology, Digital Transformation, and Geopolitical Realignments

10 - 11 December 2025

Jointly Organized by

- Rajawali Foundation Institute for Asia, John F. Kennedy School of Government, Harvard University
- East Asian Institute, National University of Singapore (NUS)
- National School of Development, Peking University

In Partnership with

- Lee Kuan Yew School of Public Policy, NUS

Background and Key Insights[1]

The conference examined how rapid advances in artificial intelligence, digital finance, and cross-border payment technologies are reshaping economic growth, competitiveness, and productivity—while also accelerating geopolitical rivalry, fragmentation, and strategic realignment. Bringing together leading scholars, policymakers, and practitioners, discussions focused on the evolving interaction between technology and economic security, the shifting role of industrial policy and governance frameworks, and the prospects for global cooperation in an increasingly contested international environment.

The discussions yielded the following sharp and policy-relevant insights:

Security is the new organising logic.

The global economy is increasingly organised around security, resilience, and technological advantage, rather than efficiency and deep integration. Throughout the conference, participants argued that this shift is not a temporary response to recent shocks, but a structural change in how major powers now pursue growth, competitiveness, and sovereignty. The result is not full deglobalisation. Instead, the world is moving toward selective fragmentation: some sectors remain broadly global, others are partially decoupled through regulation and industrial policy, and a smaller set—especially in advanced technology—has already split into rival ecosystems. In this environment, policy uncertainty is becoming a permanent feature of the global business landscape, and technology policy has become inseparable from geopolitics.

Industrial policy returns—with costs.

Industrial policy has re-emerged as the default instrument of strategic competition across advanced economies and major emerging markets. Governments are increasingly treating supply chains, critical inputs, and frontier technologies not as neutral economic domains but as sources of leverage and exposure. Industrial policy is therefore being used to rebuild domestic capacity, secure access to strategic technologies, and reduce dependence on foreign chokepoints. Yet a consistent message across sessions was that industrial policy is not costless insurance. It often raises production costs, reduces allocative efficiency, and can crowd out more productive activity. Participants repeatedly stressed that policy mistakes are expensive: poorly designed interventions can entrench inefficiencies, lock in overcapacity, and generate domestic distortions that weaken long-term performance. The conference therefore emphasised the need to assess the costs and benefits of industrial policy more rigorously, with clearer objectives, realistic benchmarks, and an explicit recognition of trade-offs—especially when security rationales are used to justify large-scale interventions.

[1] This conference was the second instalment of an ongoing trilateral conference series jointly convened by Professor Anthony Saich, Director of the Rajawali Foundation Institute for Asia at Harvard Kennedy School; Professor Alfred Schipke, Director of the East Asian Institute at the National University of Singapore; and Professor Huang Yiping, Dean of the National School of Development at Peking University. The event was organised in partnership with the Lee Kuan Yew School of Public Policy, National University of Singapore. Special thanks go to Yao Jielu, EAI Research Fellow, and Tan Chia How, EAI Research Associate, National University of Singapore, for synthesising and compiling the key insights from the conference sessions.

Trade rules face a new era.

The future of global economic governance may depend less on restoring earlier "free trade" ideals and more on redefining legitimate policy space. Panellists argued that multilateral rules need to distinguish between market-correcting industrial policy and genuinely beggar-thy-neighbour measures. Policies aimed at domestic market failures—such as learning externalities, coordination problems, or missing public inputs—may be inefficient or misguided, but their costs are largely borne at home and are best corrected through domestic accountability. By contrast, the most destabilising measures are those in which harm to other countries is the mechanism through which domestic gains are achieved: restricting access, manipulating terms of trade, or weaponising interdependence. Several speakers suggested that sustaining the WTO and Bretton Woods–style arrangements may require a shift away from rigid prohibitions and toward clearer principles that accommodate autonomy while preventing subsidy races, coercive tools, and escalating retaliation. The Bretton Woods era was referenced not as a blueprint, but as a reminder that a rules-based order can survive strategic rivalry if it provides adjustment mechanisms and safeguards rather than assuming convergence.

Rivalry is reshaping business and economies.

Technology rivalry is reshaping state–business relations on both sides, though through different mechanisms. In China, intensified geopolitical competition has layered strategic and security objectives onto already competitive domestic markets, reinforcing patterns often described as "involution," with prolonged price competition, thin margins, and sustained state support in strategic sectors. In the United States, panellists described a different dynamic: less firm-level hyper-competition and more the expansion of compliance and regulatory oversight. Export controls, investment screening, supply-chain due diligence, and forced-labour rules have increased the state's role in corporate decision-making. Several participants noted that this shift has also reduced the influence of business in US–China economic relations, as security considerations increasingly dominate policy debates.

Fragmentation is now structural.

The global consequences of these competing strategies for trade, investment, and third countries were a recurring theme. Participants emphasised that fragmentation is no longer a temporary disruption but a durable feature of the global economy. Markets are increasingly segmented into fully decoupled domains (already visible in parts of the digital economy), partially decoupled sectors (where supply chains remain intertwined but are increasingly regulated), and still-global markets that continue to function but represent a shrinking share of strategically sensitive activity. This reality sits uneasily with existing governance frameworks. Neither the United States nor China has strong incentives to negotiate comprehensive new arrangements, and both appear willing to bear inefficiencies for strategic autonomy. As a result, smaller and middle-income economies face heightened uncertainty while having limited capacity to shape the evolving rules.

Southeast Asia's policy space is narrowing.

For Southeast Asia, the conference underscored that technology development is now inseparable from geopolitics. The region continues to benefit from supply-chain shifts and rapid digital expansion, but its policy space is narrowing. Panellists emphasised that regional economies are being pulled into

competing technology ecosystems with limited interoperability, forcing alignment decisions on standards, vendors, and regulatory frameworks. At the same time, heightened monitoring of origin, compliance, and transshipment is exposing vulnerabilities in economies that previously benefited from re-routing. A further constraint is energy. The proliferation of data centres, digital infrastructure, and advanced manufacturing is intensifying demand for reliable and scalable electricity, straining grids and complicating climate commitments. The region's competitiveness therefore increasingly depends on regulatory credibility, infrastructure readiness, and the ability to navigate ecosystem bifurcation without losing openness.

Innovation finance is diverging.

The conference moved beyond high-level rivalry narratives to examine the specific policy instruments shaping technology competition. In China, panellists highlighted the rise of local governments as central actors in frontier technology development through large-scale government venture capital funds. This model represents a qualitative shift away from traditional subsidies toward equity-based participation in firms, mobilising capital on an unprecedented scale. In the United States, by contrast, private venture capital remains the dominant driver of high-risk innovation finance, even as the state has expanded its role through targeted subsidies, procurement, and restrictions designed to protect technological advantage. The broader implication is that geopolitical competition is being pursued through fundamentally different political economy structures, making misperception more likely: what appears to one side as commercial strategy can be interpreted by the other as state-directed intent.

Economic security goes mainstream.

Economic security has become a central organising principle of technology policy—not only in China, but increasingly in other advanced economies as well. In China, technology has been elevated within a comprehensive national security framework linking innovation to sovereignty, and political stability. This is reflected in dual circulation and technological self-reliance: strengthening domestic demand and indigenous innovation as primary engines of growth, while maintaining external circulation—trade, investment, and market access—to preserve scale and competitiveness. In the United States and Europe, panellists noted a parallel trend toward securitisation through export controls, investment restrictions, and industrial strategies that prioritise resilience in semiconductors, critical minerals, and clean technology supply chains. Across jurisdictions, the conference stressed that securitisation can be strategically rational but economically costly, particularly when it drives duplication, overbuilding, and retaliatory cycles.

Law becomes a strategic tool.

The growing use of legal and regulatory tools to counter perceived coercion and reduce vulnerability was another theme. China's response to foreign technology controls and trade measures has included rapid expansion of legal instruments governing trade, investment, and sanctions retaliation. At the same time, panellists highlighted that the United States and its allies have also expanded the legal architecture of economic security, including export controls, investment screening, supply-chain due diligence, and forced-labour regulations. Participants stressed that such tools are intended to strengthen deterrence and reduce exposure, but they also increase uncertainty for firms and can reinforce perceptions of politicisation. A recurring theme was that deterrence requires not only

credible threats but also credible assurances—clear limits, transparency, and predictable rules that reduce uncertainty and lower the risk of strategic misperception.

Payments are fragmenting too.

Fragmentation is visible not only in trade but also in finance and payments. Participants argued that distrust—especially fear of weaponisation—has become a major driver of experimentation with alternatives to US-centric payment rails. Projects involving CBDCs, multilateral settlement arrangements, and new cross-border platforms illustrate the search for strategic autonomy. Yet the conference stressed that the main barrier is governance rather than technology: success depends on whether oversight can be distributed credibly among participants. At the same time, US dollar dominance remains resilient because of powerful network effects—liquidity, deep hedging markets, and well-developed clearing and settlement systems. The renminbi's internationalisation has made only modest progress overall, though RMB use in trade settlement could grow gradually where China's production role gives it leverage and where supply-chain structure supports pricing in RMB—provided constraints such as capital controls continue to limit broader adoption.

AI is a systemic shock.

The conference examined artificial intelligence not only as a growth engine but as a force reshaping adjustment, distribution, and governance. Participants revisited the "AI productivity paradox": despite rapid advances and heavy investment, aggregate productivity growth remains subdued in many economies. While measurement issues and adoption lags remain important, panellists emphasised that institutional frictions, subsidy races, and geopolitical distortions may also dampen gains. AI's global impact is likely to be uneven and may widen cross-country gaps where access to advanced chips, data, skills, and infrastructure is constrained. AI may also reshape macroeconomic adjustment: if productivity gains are concentrated in non-tradable service sectors, relative price dynamics can diverge from textbook mechanisms, affecting real exchange rates and external balances. On governance, strict political neutrality was viewed as unattainable, but "approximate neutrality"—reducing systematic bias and applying consistent rules as far as possible—remains a useful objective pursued through ecosystem diversity, system-level design choices, and output-level transparency.

Coexistence beats disengagement.

Taken together, the conference portrayed a world entering a more contested and rules-uncertain phase. Technology, security, and industrial strategy are now tightly intertwined, and business decisions increasingly double as geopolitical signals. The central conclusion was that stability in this period of strategic competition is unlikely to come from disengagement. It will depend instead on disciplined coexistence: clearer boundaries between legitimate policy autonomy and coercive measures, stronger mechanisms for signalling and reassurance, and governance frameworks capable of managing partial decoupling without sliding into persistent negative-sum retaliation.

The remainder of this report presents the main takeaways from the eight conference panels.

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Session 1: Global, Political and Economic Context

Industrial policy has reemerged as a core national strategy, increasingly shaped by efficiency-security trade-off in a fragmented global economy.

Panellists emphasized that industrial policy has re-emerged as a core policy tool in response to heightened strategic competition and perceived vulnerabilities created by deep economic interdependence.

While industrial policy can be used to rebuild domestic capacity, enhance resilience, and secure access to critical technologies, it often entails higher costs, potential crowding-out of other activities, and reduced overall efficiency compared to reliance on global markets.

Several perspectives stressed that the strategic turn toward industrial policy reflects not only competition over existing production but also uncertainty about future economic architectures, standards-setting, and technological leadership. This has intensified concerns over fragmentation.

At the same time, it was noted that this shift does not necessarily imply a complete retreat from globalization. Instead, the emerging landscape is characterized by selective decoupling, managed interdependence, and greater tolerance for policy divergence.

The costs and benefits of industrial policy must be assessed more rigorously.

The discussion underscored that policy mistakes are not costless, even when motivated by legitimate goals. Poorly designed interventions can entrench inefficiencies, exacerbate overcapacity, and generate domestic economic distortions that undermine long-term performance.

Several contributions highlighted that industrial policy interventions fall along a spectrum rather than into simple categories of success or failure. Some measures may deliver strategic or security benefits that justify higher economic costs, while others may produce limited strategic value while imposing substantial fiscal, efficiency, or welfare losses.

Distinguishing between these cases requires clarity about objectives and willingness to acknowledge trade-offs rather than framing policies as universally beneficial.

Global governance should be permissive toward market-correcting industrial policy while drawing firmer lines against beggar-thy-neighbour measures.

Panellists argued that not all industrial policies warrant international concern, particularly when they are designed to address domestic market failures such as learning externalities, coordination problems, or missing public inputs.

The discussion emphasized the importance of distinguishing between policies that are inefficient or misguided from a domestic perspective and those that are harmful to others by design.

Policy mistakes motivated by political capture or informational limits were viewed as costs largely borne at home, suggesting that domestic accountability mechanisms—however imperfect—remain the more appropriate channel for correction than external enforcement.

By contrast, genuinely beggar-thy-neighbour measures were identified as those in which harm to other countries is the causal mechanism through which domestic gains are achieved.

Examples discussed included policies that deliberately restrict access, manipulate terms of trade, or weaponize interdependence to extract strategic advantage, particularly when such measures produce globally negative-sum outcomes absent retaliation.

The future of the WTO and Bretton Woods–style arrangements may hinge on accommodating policy autonomy while preventing subsidy races, weaponized interdependence, and escalating retaliation.

Panellists noted that existing multilateral trade rules were designed for a period in which industrial policy played a more limited role and geopolitical rivalry was less central. Several views suggested that preserving the legitimacy of the WTO requires rebalancing its approach away from rigid prohibitions and toward clearer principles that distinguish acceptable policy autonomy from harmful practices.

The discussion also highlighted the challenge posed by weaponized interdependence, particularly when trade, finance, and technology controls are used explicitly to deny access or impose costs on others.

Panellists pointed to the Bretton Woods era as a useful reference, in which countries retained substantial autonomy over industrial and macroeconomic policies while relying on safeguards and adjustment mechanisms to manage trade frictions. A return to this spirit was seen as a possible path to sustaining globalization under conditions of strategic rivalry.

China's pursuit of absolute advantage across sectors strengthens its geopolitical leverage but undermines domestic welfare and long-term sustainability.

The discussion highlighted that China's industrial strategy operates less on comparative advantage and more on an absolute-advantage logic, seeking to compete and export across virtually all sectors simultaneously.

However, panellists emphasized that this supply-side strength is sustained by systematically low factor costs, which translate into suppressed household incomes and a persistently low consumption share of GDP.

It was further noted that the retention of labour-intensive and legacy industries alongside advances in high-technology sectors departs from the adjustment path observed in other East Asian development experiences.

Externally, this model has generated mounting resistance as countries across different income levels confront the employment, income, and political consequences of concentrated Chinese production.

For Southeast Asia, technology development is inseparable from geopolitics.

Panellists emphasized that Southeast Asia's rapid digital growth and deepening integration into global technology value chains have heightened the geopolitical significance of seemingly commercial decisions.

One key challenge discussed was the growing pressure to navigate technological bifurcation. Regional economies are being drawn into competing ecosystems with limited interoperability, forcing alignment

decisions on standards, vendors, and regulatory frameworks. This narrowing policy space complicates long-standing strategies of hedging and openness.

The discussion also highlighted rising scrutiny over supply-chain integrity and transshipment practices. While earlier waves of supply-chain relocation benefited several Southeast Asian economies, increased monitoring of origin, compliance, and re-routing has exposed vulnerabilities.

Panellists underscored the mounting energy and environmental constraints associated with digital expansion. The rapid proliferation of data centres and advanced manufacturing has intensified demand for reliable and scalable power, straining existing grids and complicating climate commitments. This has created a tension between growth ambitions and sustainability goals.

Session 2: Technology Rivalries and Strategic Competition

Technology competition is increasingly driven by state-led industrial policy rather than market-led innovation models.

Panellists highlighted that technological rivalry today is shaped less by neutral market forces and more by deliberate state intervention. In China's case, local governments have emerged as central actors in frontier technology development through large-scale government venture capital (VC) funds. These funds represent a qualitative shift away from traditional subsidies toward equity-based participation in firms.

The scale of this intervention is unprecedented. Government investment funds administered by local authorities have mobilised trillions of renminbi over the past decade, rivalling or exceeding the annual industrial policy spending of other major economies. Artificial intelligence and green energy have absorbed a significant share of this capital, reflecting strategic prioritisation rather than sector-neutral investment.

This model contrasts sharply with the US innovation system, where private venture capital remains the dominant driver of high-risk technological investment.

Chinese private VC activity is geographically concentrated in Tier 1 Chinese cities and primarily oriented toward identifying and backing already high-performing firms. By comparison, Chinese government VC funds are more evenly distributed across regions and more willing to invest in firms that are not yet technological "champions."

Government venture capital blurs the boundary between the state and the private sector.

A recurring theme was the way China's government VC model collapses traditional distinctions between public policy and private enterprise. By taking equity stakes, local governments become residual claimants on firm performance rather than passive providers of support. This creates incentives for more disciplined project selection than under classic subsidy regimes.

Panellists noted that this structure aligns the interests of local officials, fund managers, and firms. Losses are borne directly by the public investor, while successful investments generate fiscal returns that can be recycled into future projects. This feedback loop was described as a "virtuous cycle" that strengthens the institutional durability of industrial policy.

However, this blurring of boundaries also complicates external perceptions. The fusion of state objectives with firm-level decision-making makes it difficult for foreign actors to distinguish commercial behaviour from strategic intent, particularly in sectors with dual-use or national security relevance.

Employment, distribution, and political objectives shape investment outcomes alongside returns.

Unlike private VCs, government VC funds appear to operate under a dual mandate. In addition to financial performance, they are implicitly tasked with supporting employment and regional development. Evidence discussed in the panel suggested that firms backed by government VCs expanded not only high-skilled employment but also lower-skilled job opportunities.

This pattern reflects the political economy of local governance. Local governments face pressure to deliver growth, stability, and employment, especially outside first-tier cities. Government VC funds therefore function as instruments of both technological upgrading and social policy.

Panellists emphasised that this might not always imply inefficiency. Firms initially selected by government VCs, despite lower starting performance, often exhibit faster subsequent growth. Nonetheless, the coexistence of economic and political objectives complicates straightforward assessments of productivity and capital allocation.

Private capital often follows the state, rather than leading technological investment.

Another important insight was that private venture capital frequently follows government investment rather than independently identifying opportunities. In a large majority of firms that received both public and private funding, government VCs invested first.

This sequencing effect was especially pronounced in second- and third-tier regions, where local government funds serve as signals of viability and political backing. Private investors appear more willing to enter once early-stage risks have been absorbed by the state.

Panellists interpreted this pattern as evidence that government VC funds do not merely crowd out private capital. Instead, they reshape risk perceptions and lower entry barriers, particularly in regions and sectors that private investors would otherwise avoid.

China's contemporary technology strategy is rooted in a long history of international collaboration and indigenous capacity-building.

Historical perspective was used to caution against viewing current technology rivalry as entirely novel. China's pursuit of scientific and technological capacity has long involved a mix of indigenous development and international collaboration, stretching back to the early twentieth century.

Panellists highlighted how China's Republican-era governments prioritised infrastructure, scientific institutions, and human capital, often with external assistance. Wartime cooperation between the United States and China, particularly during the conflict with Japan, accelerated indigenous scientific capabilities and helped establish the idea of China as a scientific contributor rather than a passive recipient.

The Cold War and post–Cold War periods also show that technological competition and cooperation between China and the United States have often existed side by side. In particular, past episodes of close collaboration between the two countries—even in sensitive technology areas—suggest that today's decoupling is not inevitable and may evolve depending on broader political and strategic conditions.

Economic security has become a central organising principle of China's technology policy.

A key theme was China's shift toward an economic security–oriented growth model. Technology has been elevated within a comprehensive national security framework that explicitly links innovation to sovereignty, stability, and regime security.

This shift is reflected in the doctrines of dual circulation and technological self-reliance: strengthening domestic demand and indigenous innovation as the main engines of growth, reducing vulnerability to external shocks and foreign pressure, while maintaining external circulation—trade, investment, and market access—to preserve scale and competitiveness.

Panellists emphasised that this is not merely rhetorical. Institutional reforms, new coordinating bodies, and extensive legislative activity have reinforced the security framing of technology and economic policy.

Political mobilisation shapes technology policy but introduces economic distortions.

Political mobilisation was identified as a defining feature of China's approach to technological self-reliance. Propaganda, policy discourse, and legal reforms increasingly frame technology development as a site of struggle rather than optimisation.

While mobilisation can accelerate resource deployment, it also weakens conventional cost–benefit analysis. Firms face growing uncertainty about what constitutes acceptable risk, especially when national security criteria are broad and evolving.

Panellists pointed to overcapacity in data centres as an example of misallocation driven by political incentives. Excess supply has prompted efforts to seek overseas demand, raising further questions about intent and perception.

Legal and regulatory tools are being expanded to counter perceived economic coercion.

China's response to foreign technology controls and trade measures has included the rapid expansion of legal instruments governing trade, investment, and sanctions retaliation. Amendments to foreign trade laws and new regulatory authorities broaden the state's capacity to restrict economic activity on security grounds.

These tools are intended to enhance deterrence by demonstrating China's ability and willingness to respond. However, panellists stressed that deterrence requires not only credible threats but also credible assurances—clear limits, transparency, and predictable rules that reduce uncertainty for foreign firms and governments.

Security-driven economic policy increases the risk of strategic misperception.

The panel warned that the integration of security logic into economic decision-making heightens the risk of misperception between major powers. Actions taken for defensive or domestic reasons may be interpreted as offensive or revisionist.

Firms play a critical role in this dynamic: American companies operating in China help foster bilateral understanding and, in doing so, moderate perspectives on both sides—and vice versa. As geopolitical risk rises, foreign firms become more risk-averse and may exit markets pre-emptively. Herd behaviour amplifies these exits, reducing bilateral channels of information and informal reassurance.

The withdrawal of firms thus has systemic effects. It weakens mutual understanding and increases the likelihood that policymakers misread each other's intentions.

Energy systems are a foundational but underappreciated dimension of technology rivalry.

Panellists underscored that technological competition is underpinned by divergent energy systems. The United States benefits from fossil fuel abundance, strong maritime security, and alliance-based insulation from supply shocks.

China, by contrast, remains heavily dependent on imported oil and gas, much of it transiting through vulnerable maritime chokepoints. Electrification and clean energy manufacturing are therefore strategic responses to structural vulnerability rather than purely environmental choices.

Clean technology functions as a counterweight rather than a full substitute for fossil fuels. Heavy industry, transport, and grid stability continue to rely on coal and imported hydrocarbons.

Clean energy interdependence creates both vulnerabilities and opportunities for cooperation.

While rivalry dominates the narrative, panellists highlighted areas of selective cooperation, particularly in clean energy supply chains. No single country can independently meet the demands of the energy transition.

The example of technology licensing arrangements in battery manufacturing was cited as a model for managing interdependence. Carefully structured partnerships can preserve strategic control while leveraging complementary capabilities.

Such cooperation requires clear regulatory frameworks governing ownership, oversight, and risk management. Panellists stressed that licensing and joint production need not imply dependency if designed with strategic clarity.

Understanding mutual vulnerabilities is essential to managing long-term strategic competition.

The panel concluded that effective management of technology rivalry depends on a deeper understanding of each side's constraints, dependencies, and internal policy logics. Misreading domestic drivers as purely aggressive intent increases the risk of escalation.

Strategic competition does not preclude cooperation, but it does require more precise signalling, clearer rules, and institutional mechanisms that reduce ambiguity. Without these, technology policy risks becoming a self-reinforcing cycle of mistrust.

Panellists broadly agreed that sustaining stability under conditions of rivalry will hinge less on disengagement and more on disciplined coexistence, selective cooperation, and improved mutual comprehension.

Session 3: The Role of Business and Government in Economic Development and Innovation

China's industrial policy has long depended on local-state activism, but fiscal tightening and shifting political priorities are eroding its sustainability.

Panellists highlighted that China's local-state activism has historically been enabled by unusually expansive policy instruments and resource mobilization capacity.

The fiscal foundations of this model are now under significant strain. Local revenue has weakened alongside slower growth, land-related receipts have deteriorated, and debt-resolution efforts have tightened constraints on off-budget financing vehicles. The political signals guiding local government behaviour have also shifted in ways that may dampen investment-led activism.

While there are indications that the central government intends to play a stronger role in infrastructure and industrial upgrading, the discussion suggested that central capacity is also constrained, implying that the near-term trajectory may be one of selective retrenchment, uneven local adaptation, and greater divergence across regions depending on asset strength and fiscal resilience.

Local competition has led to overbuilding of industries and ecosystems, worsening inefficiencies under security-driven strategies.

Local government competition was described as generating a pervasive overbuilding dynamic that extends beyond excess output in specific sectors to the construction of entire industrial ecosystems such as integrated industrial parks. Vacancy rates and underutilization in many of these parks were cited as indicators that capacity expansion has outpaced both market demand and absorptive capability.

Concerns over supply-chain resilience and external dependence have encouraged local governments to prioritize comprehensive, closed-loop production systems. Panellists noted that security-driven industrial strategies raised costs by discouraging inter-regional specialization and economies of scale, leading to misallocation of capital and infrastructure.

Several contributions suggested that fiscal stress has not eliminated overbuilding pressures but has, paradoxically, reshaped them. Even as traditional funding sources weaken, local governments continue to pursue industrial expansion through alternative channels, including state-linked investment vehicles and asset-backed financing.

LGFVs are being repurposed into state-linked venture investor, turning debt management into an innovation-finance strategy, but with high systemic risk.

Faced with collapsing land revenues and tighter borrowing constraints, local governments have sought to transform local government financing vehicles (LGFVs) from infrastructure-financing conduits into vehicles capable of supporting industrial upgrading, particularly in technology-intensive and "new productive forces" sectors, China's term for emerging, innovation-driven industries such as advanced manufacturing, green technologies, and the digital economy.

This transformation relies heavily on financial and organizational restructuring rather than new fiscal resources. Local governments have injected state-owned enterprise assets into LGFVs to bolster their

balance sheets, enabling these entities to regain access to bank lending, bond issuance, and other financing channels.

Some noted that LGFVs can generate outsized returns in a limited number of cases, particularly where strong industrial bases, capable management, and private capital coexist. In these settings, state-linked "patient capital" may offset weak private VC, but success ultimately hinges on a small number of high-risk winners.

AI diffusion is fundamentally a trust-and-governance problem as much as a technology problem.

Panellists emphasized that the diffusion of AI is shaped not only by technological capability but by levels of public trust in institutions, firms, and regulatory safeguards. Survey evidence presented during the session suggested that public confidence in the benefits, risks, and governance of AI strongly conditions how rapidly and broadly the technology is adopted.

The discussion identified multiple pathways through which trust operates, including institutional confidence in regulatory safeguards, perceived economic and social benefits, risk awareness and mitigation mechanisms, and public familiarity with the technology itself.

Public expectations shape national adoption pathways and the division of labour between state and firms. Survey-based evidence framed three stylized models: China as development-first and scale-driven; Singapore as technocratic, high-capacity and risk-aware; and the US as market-driven but trust-poor and uneven.

Finally, early labour-market evidence underscored that public trust may become even more consequential as AI adoption generates distributional effects. Findings suggesting displacement risks in certain occupations reinforce the need for credible social policy responses.

US–China tech rivalry is reshaping state–business relations on both sides, but through different mechanisms.

In China, intensified geopolitical competition has layered strategic and security objectives onto already competitive domestic markets, reinforcing patterns often described as "involution." Firms face escalating competitive pressures alongside national mobilization imperatives, leading to prolonged price competition, thin profit margins, and sustained state support in strategic sectors.

Panellists described a different dynamic in the United States—less firm-level hyper-competition and more expanding compliance and regulatory oversight. Measures such as export controls, investment screening, supply-chain due diligence, and forced-labour rules have increased the state's role in corporate decision-making.

In China, local-level coordination of industrial policy, especially university–industry–research collaboration can raise measured AI innovation.

Empirical evidence presented during the session suggested that cities adopting such coordination policies experienced measurable increases in AI-related innovation activity, as proxied by patent applications.

Panellists also cautioned that increased patenting does not automatically translate into productivity gains. While coordination policies may accelerate technological experimentation and research output, the economic returns depend on successful commercialization, diffusion, and application.

The evidence suggested that industrial policy in China operates through multiple channels: fiscal support, financial tools, regulatory facilitation, and coordination mechanisms. Recognizing this diversity is crucial, as even less fiscally costly interventions still depend on strong governance and supportive market conditions to achieve lasting impact.

Session 4: Global Trade and Investment in Transition

The fragmentation of global markets is no longer a temporary disruption but a durable structural feature of the global economy.

Panellists emphasized that global markets are increasingly segmented into three distinct forms: fully decoupled markets, partially decoupled markets, and still-global markets. Technology and digital sectors were repeatedly cited as leading indicators of this shift.

In areas such as search engines, online payments, and digital platforms, US and Chinese ecosystems have already separated almost completely. Other sectors, particularly those involving complex supply chains or research collaboration, remain partially connected but are unlikely to fully reintegrate. Truly global markets still exist, but they represent a shrinking share of technologically strategic activity.

The discussion stressed that existing trade rules were designed with only fully global markets in mind. This mismatch has made current governance frameworks increasingly ineffective. Rather than assuming convergence, panellists argued that future trade governance must explicitly accommodate multiple market structures operating in parallel.

The WTO and existing trade governance frameworks are ill-suited to manage a world of partial decoupling and strategic rivalry.

Several speakers questioned whether incremental reform of the WTO can address today's challenges. The consensus view was that "WTO 1.0" assumed deepening integration as the default trajectory and lacked tools to manage fragmentation driven by national security concerns, industrial policy, and geopolitical competition. As a result, trade rules struggle to mediate conflicts arising from export controls, technology restrictions, and subsidy-driven competition.

Panellists highlighted that neither the United States nor China has strong incentives to negotiate a comprehensive overhaul of global trade rules. Both countries are large enough to absorb the inefficiencies of decoupling and are willing to bear higher costs in exchange for strategic autonomy. This leaves smaller and middle-income economies exposed to uncertainty, with limited capacity to shape outcomes.

Middle powers face coordination problems that limit their ability to reshape global trade governance.

The discussion underscored that the burden of rebuilding a functional governance architecture increasingly falls on middle powers and non-aligned economies. However, panellists expressed scepticism about their ability to coordinate effectively. Large emerging economies such as India and Brazil were described as pivotal but difficult to mobilize, given the lack of compelling incentives on offer.

Wealthier economies were also criticized for failing to provide sufficient concessions or support to poorer countries. Without meaningful redistribution, market access, or financial backstops, collective action remains elusive. Panellists suggested that this coordination failure makes the current power-based system more entrenched, rather than creating momentum for reform.

China's trade and industrial performance reflect resilience but also deepening structural imbalances.

Panellists noted that tariffs imposed by the United States have not significantly reduced China's overall export performance. While bilateral trade patterns have shifted, China's role in setting global prices remains substantial, particularly in manufactured goods. This pricing power limits the ability of other countries to impose high tariffs without incurring domestic inflationary costs.

At the same time, China's growing global trade surplus was widely viewed as unsustainable. Weak domestic demand, excess industrial capacity, and slowing inbound foreign direct investment have intensified imbalances.

Panellists pointed to utilization rates below 80 percent across many industries as evidence of overcapacity. These pressures increase China's reliance on external markets while heightening trade frictions with advanced economies.

Export controls and technology sanctions have accelerated China's push toward state-coordinated but market-based innovation.

The panel discussed how US export controls, particularly in semiconductors and artificial intelligence, have reshaped China's innovation strategy. Rather than relying solely on administrative allocation, China's "new national system" was described as blending state coordination with market mechanisms. Financial reforms, targeted credit facilities, relaxed listing requirements, and state-backed venture capital were cited as tools to mobilize resources while maintaining discipline.

Panellists observed that while the United States remains ahead at the technological frontier, China has rapidly narrowed gaps in areas such as AI model performance, computing capacity, and data infrastructure. This has reinforced perceptions that technological containment may slow, but not stop, China's progress.

Trade decoupling often masks persistent indirect dependencies that are harder to regulate.

Although US imports of AI-related goods from China have declined significantly, speakers emphasized that direct trade statistics understate actual dependence. A substantial volume of Chinese inputs continues to reach the US through third countries, particularly in Southeast Asia and Mexico. This form of transshipment complicates enforcement and blurs the line between diversification and effective decoupling.

High-dependence product categories, such as lithium-ion batteries and data-processing equipment, were noted to be particularly resistant to substitution. The discussion suggested that future trade policy debates will increasingly focus on tracing indirect exposure rather than headline bilateral trade figures.

Europe faces a distinct challenge in navigating geoeconomics without abandoning its rule-based identity.

European panellists highlighted the tension between Europe's commitment to rule-based trade and the growing politicization of economic relations by both the United States and China. While the EU continues to rely on formal dispute settlement and regulatory processes, it increasingly confronts partners that deploy economic tools for strategic ends.

In technology and artificial intelligence, Europe was described as innovative but fragmented. Firms tend to be small and specialized, excelling in incremental innovation rather than frontier breakthroughs. This fragmentation increases dependence on US and Chinese ecosystems, even as Europe seeks strategic autonomy through regulatory initiatives and infrastructure investment.

Derisking strategies are becoming more prominent than full decoupling, especially for non-US and non-Chinese actors.

The discussion repeatedly returned to the distinction between derisking and decoupling. For most economies, full separation from major technology hubs was seen as neither feasible nor desirable. Instead, panellists described a growing emphasis on selective risk reduction, diversification of suppliers, and softer modes of internationalization such as licensing, franchising, and open-source collaboration.

Regionalism was identified as a practical pathway, particularly through deeper ties with neighbouring economies and the Global South. Smaller-scale digital cooperation and governance initiatives were also viewed as testing grounds for alternative models of integration.

Session 5: Understanding and Measuring AI

The "AI productivity paradox" may reflect institutional and policy frictions as much as technology limits.

Drawing parallels to the original Solow Paradox, panellists revisited a familiar puzzle: despite rapid advances in artificial intelligence and substantial investment in data centres, software, and energy-intensive infrastructure, aggregate productivity growth remains subdued in many major economies.

Several traditional explanations were revisited, including measurement problems and adaptation lags. AI-related gains are often embedded in intangibles national accounts struggle to capture including data, algorithms, organizational learning, and quality improvements. Productivity effects also depend on complementary investments in skills, management practices, and regulatory frameworks, which take time to adjust.

The discussion moved beyond measurement and timing to emphasize institutional and policy frictions. Industrial policies, subsidies, and geopolitical competition can distort resource allocation and encourage rent-seeking, weakening productivity. The paradox, therefore, may not be that AI gains are merely invisible, but that institutional structures actively dampen or offset them.

AI's global impact will be uneven and without policy action it may widen cross-country gaps.

The magnitude of productivity improvements depends on an economy's exposure to AI-relevant sectors, its preparedness in terms of skills and infrastructure, and its access to advanced hardware and data. Advanced economies tend to score higher on all three dimensions, positioning them to capture larger aggregate gains.

The discussion also noted that geopolitical constraints on technology access could amplify divergence. Restrictions on chips, computing resources, and cross-border partnerships may disproportionately limit emerging markets and low-income countries, further reducing their ability to benefit from AI diffusion. In such scenarios, AI risks reinforcing existing global hierarchies rather than narrowing them.

Panellists highlighted that divergence is not inevitable. Improvements in domestic preparedness through investments in digital infrastructure, human capital, and institutional capacity can generate meaningful gains and modest positive spillovers to the global economy.

AI may reshape macroeconomic adjustment channels, including exchange rates and external balances.

Panellists highlighted that AI-driven productivity shocks may operate differently from traditional technology shocks. If productivity gains are concentrated in non-tradable service sectors—where AI adoption appears strongest in advanced economies—the relative-price adjustments can diverge from conventional textbook mechanisms.

When productivity rises more in non-tradables than in tradables, relative prices can shift in ways that generate real depreciation rather than appreciation. This "inverse" adjustment mechanism implies that advanced-economy currencies could weaken in response to AI shocks, altering competitiveness and trade balances.

More broadly, the discussion suggested that AI's macroeconomic consequences extend beyond growth rates to structural rebalancing and external accounts. Understanding these dynamics requires models that explicitly capture sectoral heterogeneity and global value-chain linkages, rather than assuming uniform productivity effects across the economy.

Political neutrality in AI systems is unattainable in a strict sense but "approximate neutrality" remains a useful governance objective.

Panellists argued that strict political neutrality in AI systems is theoretically and practically unattainable. Every model reflects choices embedded in training data, model design, and deployment context, and even decisions not to answer certain questions can carry political implications.

Instead, neutrality was reframed as a spectrum. In this context, "approximate neutrality" means reducing systematic bias and applying consistent rules as far as possible, even if perfect neutrality cannot be achieved. Approximations can be pursued at multiple levels: through diversity across systems at the ecosystem level, (i.e., ensuring users have access to multiple models rather than relying on a single "arbiter"), through consistency or personalization trade-offs at the system level (i.e., whether the same question yields the same answer for everyone or is tailored to user context), and through strategies such as refusal, plural presentation of views, or labelling bias at the output level (i.e., how individual answers are framed, constrained, and made transparent to the user). Each approach entails trade-offs between fairness, usability, safety, and transparency.

Regulatory environments shape how neutrality is operationalized in practice. Differences in content governance and enforcement can produce distinct output patterns across models developed in different jurisdictions. Political bias in AI systems therefore reflects institutional context as much as technical design, reinforcing the need for governance frameworks that acknowledge approximation rather than perfection.

Benchmarks are becoming a core interface between AI capability, regulation, and markets but many are weak measurement instruments.

Panellists noted that benchmarks increasingly shape how AI systems are developed, marketed, and regulated. Performance scores influence investment decisions, user adoption, and even regulatory classification, making benchmarks a key interface between technical capability and governance. As a result, benchmark design has real economic and policy consequences.

However, many widely cited benchmarks were described as weak measurement instruments. They often lack transparency in design, suffer from poor documentation, and fail to distinguish signal from noise. High scores are frequently used to support broad claims about reasoning or intelligence that go beyond what the test can validly measure.

The discussion emphasized validity as the central concern: whether a benchmark truly measures the construct it claims to assess, and whether results generalize beyond the narrow test setting.

Session 6: Finance, AI and Digital Transformation

Fragmentation of the global monetary system is driven by distrust, as countries seek to reduce their reliance on the US dollar.

The current global financial system has proven to be an effective cudgel that can be wielded against countries that pursue interests against the US and its allies. As a result, trade and investment flows have been reshaped as countries look to mitigate the fallout from the possible further weaponization of the financial system.

The current geopolitical landscape is characterized by mistrust, and there is a growing fear amongst policymakers that dependence can or will eventually be weaponized.

The US-China relationship has moved from deep economic interdependence towards strategic rivalry and distrust. This has led to attempts to economically and technologically decouple, using tools such as export controls, tariffs, investment restrictions, technology bans and a greater scrutiny of financial flows. This has resulted in lower and more volatile trade flows, reduced cross-border coordination on global issues and a gradual fragmentation of global financial systems.

Current geopolitics has created strong incentive in policymakers to enhance strategic autonomy from the US dollar. However, it remains to be seen if the private sector will adopt alternatives to the US dollar/US dollar centred stablecoin-anchored international payments architecture.

According to one speaker, the US dollar's role as a global currency is becoming increasingly uncertain. The speaker noted that the dollar's dominance is not underpinned by the strength of US manufacturing, but rather by the network effect created through its widespread use. As trade barriers continue to rise, cross-border trade may decline, weakening the network effect that sustains the dollar's global role.

The further fragmentation of the global financial system will further reinforce current trading and investment blocs, increasing geopolitical tensions. Additionally, widening differences in governance models, data standards and cybersecurity thresholds can further entrench this fragmentation.

One speaker warned that the widening rift between the United States and China, and the resulting fragmentation of the global financial system, could lead to a reconfiguration of the international monetary order and make it more difficult to sustain the safe-haven status of US debt.

An audience member questioned the possible decline of the USD and the RMB's ability to replace it, noting that the US dollar remains the primary reserve currency for many economies, including Brazil, and constitutes the majority of global foreign reserves. By comparison, the renminbi accounts for only about 2% of foreign reserves.

The decline of the US dollar's dominance may not automatically lead to the rise of a single alternative reserve currency, such as the renminbi. Instead, multiple currencies could share reserve status, or there could be increased reliance on instruments like Special Drawing Rights (SDRs). Alternatively, some countries may increasingly turn to non-fiat assets, notably gold, as an alternative store of value to hedge against financial and geopolitical risks.

Dependence on a single dominant reserve currency can increase systemic risks, particularly when the issuing country's domestic policy objectives diverge from broader global economic goals.

USD-backed stablecoins may preserve the relevance of the dollar and undermine efforts to develop strategic autonomy from US-led payment systems.

The GENIUS Act—a law establishing a comprehensive regulatory framework for stablecoins pegged to the US dollar—was cited as an example of how the United States is reinforcing the dollar's long-term relevance. Current data suggest that these efforts have been largely successful.

Global reactions to the GENIUS Act have been mixed. To hedge against the rising might of US dollar and US-led payment systems, Central Banks of major economies are racing to create alternatives to USD-backed stablecoins, digital payment rails and financial platforms. Additionally, certain countries such as China have also banned the use of foreign-currency-denominated stablecoins in the mainland to maintain monetary sovereignty. However, such digital currencies are permitted in Hong Kong.

The global trend toward greater currency digitalization may produce positive spillover effects, including improved efficiency in cross-border payments. At the same time, the expansion of stablecoins presents potential challenges, such as increased fragmentation of payment architectures, which may be reinforced by policymakers' efforts to maintain strategic autonomy over payment systems.

Countries are experimenting with alternatives to US-centric payment rails, but their success depends on distributing oversight equitably amongst participants.

Currently, global payment infrastructure is largely centred on the US financial system. Efforts to explore alternatives include initiatives led by multilateral organizations, such as the Bank for International Settlements' Project Agorá (with participation from the New York Federal Reserve and central banks of Japan, Korea, France (Euro system) and Mexico), as projects like Project mBridge (with participation by China's People's Bank of China, Hong Kong Monetary Authority, UAE, and Saudi Arabia) as well as Europe the e-Euro project (European Central Bank).

Panellists highlighted that each uses different technology potentially leading to interoperability across systems. While these could be overcome, in the current geopolitical context, the main challenge is the governance structure across different countries. This was exemplified by the failure of the BIS project "Dunbar" Project, given that it failed to progress beyond the testing phase due to the absence of an agreed governance structure.

China's distrust of the US is reflected in its efforts to shrink reliance on the USD.

Discussions highlighted how Chinese distrust of the United States affects China's holdings of US debt. To measure US mistrust of China, the speaker constructs a media-based index capturing negative or adversarial portrayals of China. Similarly, patterns in Chinese media, as assessed by Yan Xuetong et al., are used as an indicator of Chinese distrust toward the US.

By comparing trends in US–China mistrust with China's holdings of US debt—and with holdings by geopolitically neutral economies like Brazil—discussions demonstrate a clear relationship between declining Chinese holdings of US Treasuries and a broader decline in cross-border trust.

- China's holdings of US Treasuries and other safe assets decline systematically as cross border mistrust rises.

- By comparing the US treasury holdings of benchmark economies like the Euro Area and Brazil, the speaker suggests that the retrenchment of US treasuries is unique to China.
- In other words, mistrust accounts for a large share of China's retrenchment of its US treasuries.

China's drive to internationalize the RMB has made only modest progress, but its role in trade settlements could grow over time.

Despite growing efforts to internationalize the renminbi (RMB), it still represents a relatively small share of international payments, trade invoicing, and foreign reserves. Although the proportion of China's trade settled in RMB is increasing, its overall share remains modest.

Discussions explored the factors influencing the choice of pricing currency in trade. In cross-border supply chains, firms sourcing most intermediate inputs from a single country may use the producer's currency (producer currency pricing, or PCP) to reduce foreign exchange risk. In contrast, firms relying on global value chains with multiple international suppliers often settle transactions in a dominant currency, typically the US dollar (dominant currency pricing, or DCP).

Exporters also tend to align with competitors' pricing currency to mitigate exchange rate risks: they use the local currency (LCP) when the importer is a major producer, and the dominant currency (DCP) when competitors are foreign. In highly competitive markets, price changes driven by exchange rate fluctuations make competitors' pricing decisions especially influential.

The US dollar benefits from strong network effects as a widely used global currency. It enjoys higher liquidity, lower exchange rate costs, well-developed clearing and settlement systems, and abundant hedging instruments. These advantages create a herding effect, with producers following established norms and pricing their products in US dollars.

China's role as a global producer can help elevate the use of RMB in trade settlements and reduce the use of the USD.

The speaker discusses some possible levers that China can build or use to catalyze the internationalization of the RMB. China has the advantage of being a global producer – hence giving it greater ability to elevate the use of the RMB as a settlement currency, especially with its trading partners. China possesses comprehensive supply chains, being the only country that has production capabilities in all the industrial categories under the UN's industry classification system, making it an indispensable trading partner. As China advances into higher value-added sectors like machinery and vehicles, its leverage over the pricing currency increases.

However, China is constrained by its strict capital controls on the RMB. Despite this, Chinese supply chains are expanding beyond its borders. China has been offshoring parts of its supply chains to maintain supply chain resilience in the face of an uncertain geopolitical landscape. It is also actively pursuing integration of China into global supply chains to enhance its position as a global production hub. This will allow Chinese manufacturers to use the RMB more widely as a currency for settlement.

China can compel exporters to price commodity exports to China in RMB, using the large Chinese demand for commodities such as energy and raw materials as leverage.

Transiting from a managed float to a clean float could encourage China's trading partners to use the RMB as their preferred currency for settling trade with China. The RMB operates under a managed floating regime with reference to the US dollar, so the USD/RMB exchange rate remains relatively stable, reducing incentives for buyers to switch to RMB settlement.

Chinese producers are also increasingly selling to end consumers, bypassing traditional intermediaries and reducing the bargaining power of importers. Around 19% of online sales made by Chinese firms are direct-to-consumer. Direct-to-Consumer channels may encourage the use of the RMB, and China can explore developing payment systems to facilitate payment for DTC purchases in RMB.

Digital currencies, such as cryptocurrencies, offer functional alternatives to SWIFT and can reduce the cost of cross-border transactions in non-dollar currencies, thereby narrowing the US dollar's cost advantage in international payments.

China is progressively digitising its consumer banking services, including accelerating the adoption of AI in consumer banking.

Discussions highlighted the growing digitalization of banking, with many institutions adopting AI to enhance operations and expand services. A survey of financial institutions shows increasing AI adoption across all banking functions, with the highest uptake in front-office and operational processes, and banks leading the way.

In China, banks are progressively integrating AI into front-office activities such as customer assistance and marketing. AI also enhances middle-office functions, including borrower verification; for example, China's online credit approval and risk control system automated credit approval for 5 million micro-enterprises in just three months. In back-office operations, AI improves transaction monitoring and the detection of suspicious activity, with studies by the People's Bank of China (PBOC) demonstrating superior speed and accuracy compared with human staff. Additional AI applications include supporting operational decision-making and providing financial advice.

In response to AI's growing role, China has strengthened its legal framework, introducing legislation to protect data privacy and regulate cross-border data flows. It has also mandated the filing of core algorithms to prevent "black box" designs, ensure human oversight, and implement end-to-end monitoring of AI trading platforms.

AI investment is concentrated in large Chinese banks and is associated with stronger performance growth. Discussants cautioned that this concentration could create systemic risks, as gains accrue disproportionately to institutions most able to invest in emerging technologies, resulting in uneven productivity improvements and potential threats to financial stability.

Session 7: Technology, Geopolitical Strategy, and National Security

Global trade is moving toward selective fragmentation rather than full decoupling.

Evidence presented showed that while collaboration and exchange have declined sharply in certain technology-intensive areas since 2020, especially those tied to national security concerns, cross-border interaction in other domains has proven more resilient. Decoupling is targeted at specific chokepoints where strategic rivalry is most acute.

The semiconductor sector was presented as the clearest example of intentional separation. In this domain, policy efforts aim to restructure supply chains, reduce dependency, and restrict technological transfer at the frontier of advanced manufacturing. Yet even here, speakers emphasized the extreme complexity and global dispersion of production networks making total disengagement costly and difficult.

From a policy perspective, fragmentation was described not as a binary outcome but as a spectrum. Certain categories of trade may remain largely open, others may be tightly controlled, and the boundaries between them are likely to evolve over time as technologies mature.

The discussion underscored that the persistence of embedded production networks complicates any narrative of full decoupling. Even as export controls intensify and political rhetoric hardens, multinational firms continue to produce, invest, and sell across borders.

National security has become the dominant organizing principle of technology policy.

Export controls and investment restrictions are framed as tools to protect strategic advantage and limit rivals' technological advancement. Semiconductors are treated not as ordinary commercial goods but as critical infrastructure underpinning military, AI, and geopolitical power. This marks a clear shift from earlier priorities centred on trade liberalization and innovation spillovers.

The discussion highlighted that export controls have evolved in both scope and purpose. The use of export controls in broader economic bargaining introduces ambiguity about whether restrictions are purely security-driven or also instruments of economic leverage. The result is a policy environment in which security rationales increasingly structure the rules of technological exchange.

Several panellists also questioned how far securitization should extend. Expanding the definition of "security-sensitive" technologies risks pushing ever larger segments of the semiconductor and AI ecosystem into restricted categories.

The discussion acknowledged that excessive securitization may generate unintended consequences. Overuse of controls can drive duplication, inefficiency, and retaliatory measures, reinforcing a negative-sum logic in which each side incurs cost to impose greater cost on the other.

Panellists suggested that policymakers must consider whether security-based fragmentation strengthens long-term resilience or simply accelerates systemic polarization. The challenge therefore is not whether security matters, it clearly does, but how broadly and persistently it should organize technological governance.

Supply chain weaponization has become reciprocal, but its leverage may erode over time.

Panellists observed that supply chain dominance is increasingly used as a geopolitical instrument on both sides. Advanced semiconductor design and equipment controls on one hand, and export restrictions on critical minerals and rare earth processing on the other, illustrate a reciprocal pattern of economic coercion. What was once framed as interdependence for efficiency has become leverage for strategic bargaining.

However, several speakers cautioned that such leverage is unlikely to remain static. Once supply chains are weaponized, affected countries accelerate diversification, stockpiling, and substitution efforts. While immediate disruption can be significant, over time these responses may reduce dependence and weaken the coercive power of chokepoints.

China's innovation strategy is shifting toward systemic resilience and self-reliance.

Panellists highlighted that China's innovation strategy has evolved from catch-up industrialization toward an explicit emphasis on systemic resilience and technological self-reliance. Policy discourse has increasingly focused on breakthroughs in core technologies and reducing dependence on foreign chokepoints, reflecting both external pressure and internal strategic recalibration.

Evidence presented suggested that enterprises are playing a growing role in patenting and commercialization across sectors such as semiconductors, AI, and quantum technologies. This shift points to an effort to strengthen the full innovation ecosystem rather than relying solely on state-led research initiatives.

Panellists debated whether capital-intensive and highly complex industries, particularly advanced semiconductors, can replicate earlier state-supported successes. Questions were raised about the efficiency of large guidance funds and whether sustained investment alone can overcome structural technological gaps.

Trade, investment, and political economy are being reconfigured in third countries.

In Europe and other advanced economies, concerns over trade imbalances, overcapacity, and strategic dependence are increasingly shaping policy debates. While China retains leverage through market access and critical inputs, its influence is filtered through domestic political and economic pressures.

At the same time, it was emphasized that simple export data may understate the depth of economic entanglement. Many multinational firms remain deeply embedded in Chinese production networks, producing locally for local and third markets.

Discussion also suggested that outbound investment and supply chain integration can serve as instruments of influence. Strategic investments, particularly in manufacturing and green technology, may reshape political incentives in host countries, making third-country political economies a key arena in the restructuring of global trade.

Open-source AI represents an alternative model of technological influence.

Panellists noted that open-weight AI models are diffusing rapidly across countries, suggesting that openness itself may function as a strategic instrument. By releasing model weights under permissive licenses, developers enable adaptation, localization, and ecosystem growth, potentially generating influence through scale and network effects rather than proprietary control.

However, diffusion does not necessarily translate into stronger governance standards or transparency. While open models expand access and lower barriers to entry, documentation of training data, evaluation processes, and compliance mechanisms remains uneven. This raises questions about whether openness primarily advances technological reach rather than regulatory accountability.

The broader debate centred on whether AI ecosystems will resemble mobile operating systems—where multiple platforms coexist and compete—or whether scale economies will produce dominant architectures. The answer carries significant geopolitical implications, as ecosystem structure shapes where chokepoints emerge and how influence is exercised.

Session 8: Business-Government Roundtable

Macroeconomic policy uncertainty resulting from geopolitical competition is now a permanent feature of the global business environment.

The panel underscored that heightened policy volatility in the United States has become a defining feature of the global business environment. Participants emphasized that rapid shifts in trade, immigration, and regulatory policy—often announced with limited coordination or predictability—have introduced persistent uncertainty for firms operating across borders.

From a business perspective, tariffs were repeatedly characterized as a tax-like shock that raises costs across supply chains and ultimately weighs on consumer demand.

While near-term impacts have been muted by administrative delays, pre-emptive stockpiling, and partial absorption by firms, panellists broadly agreed these buffers are temporary. Over time, tighter financial conditions and reduced purchasing power are likely to materialize, with implications not only for US growth but also for trading partners that depend on US demand.

Current US economic growth is highly concentrated in AI, making the US vulnerable to a potential market correction.

Panellists highlighted artificial intelligence as a major offset to policy-driven headwinds, particularly in the United States. Business investment, equity market performance, and productivity expectations were described as increasingly dependent on AI-related sectors, which have experienced outsized growth relative to the rest of the economy.

The discussion emphasized that recent economic momentum linked to artificial intelligence is highly concentrated, both across firms and sectors. Growth in investment and equity valuations has been driven largely by a narrow set of large, technology-focused companies, while activity outside AI-related sectors has remained comparatively flat.

Panellists did not frame this as an imminent correction, but rather as a source of vulnerability: if expectations around AI-driven productivity or returns were to weaken, the concentration of gains could translate into sharper adjustments in asset prices and household wealth, with knock-on effects for consumption and global spillovers.

China is central to global firms, and an unavoidable source of geopolitical risk.

China emerged as the most consistently cited source of geopolitical anxiety for global firms, cutting across sectors and company sizes. The panel emphasized that China's importance stems not only from market size, but from its deep integration into global supply chains, innovation ecosystems, and competitive dynamics. Even firms without direct sales exposure to China reported indirect vulnerabilities through sourcing, talent, or competitive pressure.

Panellists stressed that China's distinctive political economy amplifies these risks. The state's ability to mobilize regulatory, legal, and security instruments—often with limited transparency—creates uncertainty that is difficult for firms to price or insure against. This uncertainty is compounded by the breadth of laws governing data, national security, and corporate conduct, which leave companies exposed to sudden shifts in enforcement.

Firms are still choosing to engage with China despite heightened geopolitical risks.

Despite elevated concerns, the panel was clear that most multinational firms are not exiting China. Instead, businesses are recalibrating their exposure while maintaining or even expanding certain forms of engagement in China. Participants cautioned against conflating diversification strategies with withdrawal, noting that "China-plus-one" approaches are better understood as risk management rather than disengagement.

Several reasons were cited for this persistence. China's manufacturing scale remains difficult to replicate, and its innovation ecosystem is viewed as essential for understanding future technologies and competitors. Firms also expressed concern that disengagement could leave them strategically blind to emerging Chinese rivals, particularly in advanced manufacturing and technology-intensive sectors.

Firms are choosing to manage geopolitical risks internally, and only a minority of US businesses surveyed have taken firmer steps to separate risks.

A recurring theme was the erosion of confidence in government-to-government or multilateral mechanisms as effective tools for managing economic frictions with China. Participants observed that businesses increasingly assume they must manage geopolitical risk internally, rather than relying on diplomatic or institutional remedies.

As a result, firms are investing in scenario planning, compliance systems, and external advisory support. However, the panel noted that only a minority have taken more structural steps, such as separating China-related operations from global business units. This uneven adoption of risk frameworks leaves many firms exposed to hidden dependencies and unanticipated leverage by state actors.

Business now plays a diminished role in US–China economic relations, with both governments placing less weight on business concerns.

The panel described a shift in the role of business in shaping US China policy, particularly in Washington. Participants noted that corporate concerns about market access or profitability now carry less weight than in earlier periods, as strategic and security considerations increasingly dominate policy debates.

While this has reduced the overall responsiveness of US policy to broad-based business advocacy, some firms and sectors continue to exert influence when their interests align with national security priorities or domestic political objectives, rather than through traditional trade or investment arguments.

With regards to China, participants emphasized the transactional nature of state–business relations. Periods of regulatory permissiveness can be followed by abrupt intervention, creating cycles of rapid growth and sudden constraint. For global firms, this reinforces the need to assume that political objectives may override economic considerations with limited warning.

Global capital flows are becoming more fragmented; while China offers attractively priced investments, its tail risks remain too significant for some investors.

From the perspective of global investors, the panel highlighted growing concentration risks in US markets alongside increasing discomfort with US political and regulatory uncertainty. This has prompted some institutional investors to gradually reallocate capital toward other regions, including parts of Asia (Japan and India) and Europe, in search of diversification and attractive valuations.

China was described as presenting a paradox. China remains one of the few large markets where growth can be accessed at relatively attractive valuations, with significant developments in key emerging industries such as AI, robotics and clean technologies. It has relatively deep scale capital markets that can absorb significant inflows of capital. Chinese firms are also shaping up to become leaders in technological innovation.

However, it is these exciting industries are facing significant scrutiny because of US-China strategic rivalry, subjecting it to increased levels of political and policy uncertainty, and narrowing feasible investment channels.

This tension is reshaping portfolio construction rather than eliminating China exposure altogether; in a world that is increasingly decoupled, the benefits from diversification may outweigh the potential costs.

Decoupling is advancing at the sectoral level, beginning with strategically sensitive industries.

The panel used biotechnology and healthcare to illustrate how strategic competition is translating into sector-specific decoupling. Export controls, investment screening, and data governance rules were described as increasingly complex and, at times, ambiguous. Firms operating in these sectors face compliance challenges that affect clinical trials and cross-border collaboration.

Participants stressed that pressures arising from strategic competition, particularly in sensitive sectors such as biotech, are not confined to bilateral US–China relationships. Global supply chains in these industries are deeply interdependent, and measures aimed at mitigating security risks can have unintended effects on firms in the United States and allied economies.

The discussion highlighted that, in several critical inputs and services, viable substitutes to Chinese inputs remain limited, increasing the risk that restrictions could disrupt innovation, production timelines, and cross-border collaboration.

With US–China rivalry now structural, global businesses are minimizing risk concentration and building institutional capacity to resist geopolitical shocks.

The panel converged on the view that US–China strategic competition is no longer a background condition but a structural feature of the global business environment. Firms are being forced to operate in a world of higher uncertainty, fragmented rules, and overlapping economic and security objectives.

Rather than pointing to full decoupling or a return to earlier models of globalization, the panel described a more fragmented and pragmatic operating environment. Firms are increasingly pursuing

selective engagement, diversification of exposure, and internal resilience, while accepting higher levels of uncertainty as a structural condition.

For global businesses, participants emphasized that success is less about anticipating precise policy outcomes and more about building institutional capacity to manage regulatory ambiguity, geopolitical shocks, and divergent policy regimes across major markets.