Video Presenter: Markets are on edge. Will our economies be ready for the disruptions we expect and the disruptions we don't yet see?

Announcer: Ladies and gentlemen, please welcome Bloomberg news editor, Mr. Richard Bravo.

Richard B.: Thank you very much. Thanks for joining us this morning where we'll be discussing the state of the global economy. Please help me in welcoming our distinguished panel this morning. We have Frank Friedman, COO at Deloitte. Thank you for joining us. We have Ceyla Pazarbasioglu, Vice President for Equitable Growth, Finance, and Institutions at the World Bank. And Lucio Mauro Vinhas de Souza from the European Political Strategy Center.

Richard B.: Today, we'll be discussing a looming economic crisis. In the U.S., the economic expansion has reached its 39th quarter, which is just one quarter shy of the post war record. Many market observers are looking at the next shoe to drop. The reading in the tea leaves, waiting for the next shoe to drop, and one of those tea leaves that a lot of people are looking at is the 3-month 10-year yield curve.

Richard B.: Now, this curve has recently inverted for the first time since 2007, which was just before Lehman Brothers filed for bankruptcy, ushering us into the largest global financial crisis since the Great Depression. Separately, confidence amongst CEOs at small and mid-sized businesses fell to the lowest level in nearly a decade, and JP Morgan recently adjusted the probability of recession starting the second half of this year up to 40% from 25% just last month.

Richard B.: Before we begin our discussion format, each panelist will make a brief introductory remark. Why don't we start with you, Frank.

Frank F.: Good morning everybody. And again as always, thank you to the GMF for inviting me to speak about the looming economic crisis. I suspect it depends upon where you stand and maybe your political inclinations and how you view some of the things that were just discussed in terms of historical trends as to whether you think there's going to be an economic crisis or not, and what you think of the overall state of the global economy, and specifically the state of transatlantic economy.

Frank F.: For us at Deloitte, we do not believe, absent a war in which case all bets are off, or a bubble which maybe there is one brewing, we don't believe there will be a financial crisis. Certainly nothing to the extent of 2007, '08, '09. What we do believe, which is kind of obvious right now, is that there will be a slowdown both in the States, latter half of this year and next year, as well as a slowdown in Europe.

Frank F.: Now, we look at the U.S. The U.S. economy right now is actually relatively strong. There is increased consumer spending, there is historically low unemployment rates, historically high stock market, there is low interest, and business investment continues to expand. But saying all that, there are some headwinds. One, that was just mentioned, is kind of time. We've had 10 years in the U.S. of growth, unprecedented 10 years. Never had before. The second is the trade issues that will be discussed later today. Third are some of the waning impact that the tax act has had, which was two years ago. And then finally, just the fact that the government is going to be spending less money this year than they did in the last couple of years.

Frank F.: Now, if we turn to the other side of the Atlantic, but for Italy, all the countries are growing, but anemically; growing one to two percent. Germany came very close to going to a technical recession last year. The U.K., France, Portugal, Sweden, Switzerland, growing at one to two percent, and the overhang over everything of course is Brexit. We believe that it could be a scary Halloween on October 31st when Brexit is determined, but a hard closed Brexit, we believe there's a high likelihood the U.K. Goes into a recession.

Frank F.: So, there is some headwinds across both sides of the Atlantic, but I think today's discussion ought to be about how we can change that. We, being municipalities, governments, corporations, various stakeholders; how we can pivot and instead of having slow or no growth, perhaps move it to some additional growth.

Frank F.: Three comments I would make that we could discuss later on. One, is a refocus on entrepreneurship. Two, is innovation, but not just innovation, innovation for the sake of increasing productivity. And then third would be either a new mechanism of funding or putting venture capital on steroids.

Frank F.: I look forward to the discussion today. Back to you.

Richard B.: Thank you. Ceyla.

Ceyla P.: Good morning. First of all, thank you to GMF for inviting me. It's a pleasure to be here. I have been working on recessions or crisis for 30 years and learned not to predict whether we will have one or not. But what I would like to say, a few things. One, the vulnerabilities are high, and that worries us. We lowered our global growth forecast to 2.6 just on June 4th, and right after I was at Fukuoka at the G20 meetings, and all of the central bank governors of the G20 and finance ministers warned against risks to the downside.

Ceyla P.: There are five issues that worry me. One is a lot of policy uncertainty, be it on trade, be it on other matters or ... Uncertainty means less investment, and it really impacts growth. So, the first one is policy uncertainty.

Ceyla P.: The second one is very high levels of debt. That's public sector debt in all countries, advanced economies as well as developing economies, and for us at the World Bank, the lower income countries which are at really high levels of debt distress. And that's most government debt as well as corporate debt. So, we have very high levels of private sector and public sector debt.

Ceyla P.: Third is accelerating climate related disasters, and these shocks really becoming very powerful, sometimes 200% of GDP impact for some of the countries.

Ceyla P.: Fourth is technological change and changing business models, which impacts anything from taxation to how we can predict growth, to how the digital technology is impacting economy.

Ceyla P.: Fifth, which for us at the Bank is the biggest worry I should say, and that the widening income gap especially in some of the countries, and really concentrated poverty in the sub-Saharan Africa, some countries in sub-Saharan Africa, and especially in fragile and conflict states. That has implications for the world. It has implications on forced migration. It has implications on aspirations, on security.

Ceyla P.: Those are the five issues that worry me.

Lucio de S.: Thank you. Good morning to everybody and once again, thanks for the invite. On the premise of the discussion if there is going to be a crisis, let's forget the looming one; that's like asking in Belgium if it's going to rain. Any single person living in this country knows that with a probability of one, the answer to this question is yes. Is there a looming one? Is there going to be something in the medium term? We cannot say that because crisis, they are effectively conditioned on the policies that are undertaken by economic actors, be it those governments or the private sector.

Lucio de S.: It is clear that we have been on a longest streak of continuing growth not only in the United States, our counterparts across the Atlantic, but also in Europe. We have been now on, depending on how you count, that for five solid years of expansion. We have, again like our counterparts in the United States, record levels of Europeans in employment. We have close to record levels of low unemployment in the European Union.

Lucio de S.: What can we think could be potential triggers that could lead to a more noticeable type of slowdown? We have been clearly observing a limited deceleration of economic growth on this side of the Atlantic for both cyclical, member state specific, and more systemic types of reasons. The most systemic type of reason is obviously the very high level of exposure that the European Union and the Euro area in particular have to [inaudible 00:10:09] our shocks. We are among the most open, integrated economic areas on planet Earth. We are nowadays, you don't even have to take into consideration intra European Union trade to come to this conclusion, but by some measures actually more open than China.

Lucio de S.: The People's Republic of China reduced its exposure to trade shocks in terms of openness by close to 25 percentage points of GDP in the past decade. We, the European Union, we became more open, which obviously has positive reasons.

If you have a global upswing, we benefit more, but makes us more vulnerable to external shocks.

Lucio de S.: So, disruptions in terms of international trade or even perceived disruptions to international trade, they are stressors that affect the Union proportionately more than other regions of the world. They said anything that we might be seeing in terms of economic developments in the Euro area cannot be classified as anything else beyond a relatively mild slowdown. As a matter of fact, you can make the case that we are growing at potential. Potential may be somewhat disappointing in the European Union, but that of course is a different type of question. But, so you go.

Lucio de S.: We are not seeing anything at this stage that would indicate that we have significant medium term stresses; beyond the day, no one knows. In other terms, more significant shocks to the global multilateral trade order.

Lucio de S.: As far as we stand, we are in a relatively robust positive situation. As a matter of fact, we as policy makers and as economic agents, we do have tools to deal with some of those shocks. I will end here.

Richard B.: Thank you. It's important to keep in mind as we talk about the next economic crisis to remember that we're not that far past the last economic crisis. We were just speaking before, the panel, about Greece, and we found ourselves writing about ... the ESM was warning Greece on missing some of its budget targets in its post program surveillance. Looking back at the EU, Lucio, I think it's worth asking. Is the EU better prepared for the next crisis?

Lucio de S.: Okay, I will stand up again because we're instructed that that is the [inaudible 00:12:37] of the event. The unambiguous answer to that is yes. You look in terms of the availability of tools and frameworks that we have in this great Union of ours. You clearly see that we are way more prepared than 10 years ago. I usually tell this joke, I happen to be the former Chief Economist of Moody's based in New York. I was doing this work during the depths of the Euro area crisis, and I have the joke that my team 67 times correctly predicted the breakup of the Euro area. Obviously this hasn't happened.

Lucio de S.: This hasn't happened because of the following. The integrated structures that the Union set up to deal with the type of stresses that led us to the sovereign crisis have been nothing short of remarkable. We have a single supervisory mechanism that allows us to pinpoint banking type of stresses. We have very significant support frameworks, our very own, even if we don't call it at this stage, European Monetary Fund, with a capacity to provide support to the level of close to one trillion dollars to a country that enters into a situation of external constraints. We have now a surveillance mechanism headed by the European Commission which is much more robust, some would say it's much more intrusive than what we had before. In terms of our structuring tools, we are clearly much more prepared than before, and some of the preexisting stressors that led up to the sovereign crisis have clearly been reduced.

Richard B.: Are you at all concerned about the failure for the Eurozone to put together the deposit insurance program or the size of the proposed Eurozone budget?

Lucio de S.: I will reply to that sitting if you don't mind, so don't read anything into that. The structure of the banking union, which is the way that we try to address the fact that we have in some ways non-integrated financial sector even after the creation of Euro area, rested on three pillars. The creation of integrated supervisory mechanism, the SSM, which has been up and running for five years and is routed in the ECB, so that is there. The Single Resolution Mechanism as an institution and as a fund capable of resolving banks if other types of resources are exhausted; up and running and capitalized. What you mentioned, the so-called third leg of the banking union, is actually effectively half there. All member states of the European Union now have deposit insurance. You may not realize that, but several of our member states actually didn't have deposit insurance. They introduced this and introduced an harmonized framework for deposit insurance because of legislation passed by the European Commission.

Lucio de S.: So, what you mentioned is the integrated component of the deposit insurance, not the existence or not of the deposit insurance, which now every single member state have. Eventually, we will have a political agreement that will lead to this integrated additional support, an insurance mechanism, but that will come with time. I have to say that I'm not particularly concerned with that. That is a process and we'll get there.

Richard B.: While we're talking about some of the repercussions from a possible crisis, Ceyla, what particular challenges do emerging markets face from a possible slowdown, and what can they do to prepare, and are they taking those measures to prepare?

Ceyla P.: As I mentioned before, there are two issues that impact emerging markets. One is uncertainty and the impact on that on investment, both in terms of local investment by the local community but also in terms of foreign investment, which requires some degree of certainty of policies. The second is the high debt which limits the fiscal space and the monetary space to be able to deal with any uncertainties that come. But many of the emerging market countries have actually done a lot of reforms in the past. There's much more to do in terms of structural reforms. What that means is better labor market policies, better doing business policies, structural reforms that bring in private sector investment because what we see in many of the countries that we work in, is that to reach the sustainable development goals by 2030, which is a goal that we have set for ourselves globally, we need to see much more urgent and bold reforms in terms of the ability to attract investment. That is a big challenge for many of the countries and requires not only national policies, but also regional policies as well as global coordination.

Richard B.: Frank, how about the private sector? From your perspective, are they prepared for a downturn?

Frank F.: Yeah, I'll address that in a second. If I could just pile on to the corporate debt issue. From our vantage, the bubble I talked about earlier was around corporate debt. The amount of corporate debt that's been issued is about the same level of GDP in the U.S. as it was before. The issue is that the percentage of low investment grade debt that's been issued is much higher than it was during the last recovery. It's about 77% versus 90% in the last recovery, and the amount of near junk has increased, and you couple that with the securitization of the debt, not knowing the risk characteristics, not knowing who owns it. Kind of sounds similar to the mortgage crisis that existed about 10 years ago. That's the bubble that I think people need to be cognizant of.

Richard B.: Are the securitized products that exist now as dangerous as the ones that existed in the lead up to the 2007?

Frank F.: I don't know, but I just know that the risk characteristics of [inaudible 00:18:49] are somewhat unknown, and the debt holders are somewhat unknown as well.

Richard B.: Okay.

Frank F.: That's the one bubble I tend to agree. Relative to private, I think that ... I tell our companies, when I consult with clients, I tell them you should never forecast, but you should always plan. And so, in the last year or two, for my own company, we've undertaken a significant planning process around downturn plan. Now, we've developed playbooks, but during a crisis or during a downturn, you're not going to pull out a playbook. But what happens while developing playbooks is you become a lot smarter about things; you think about things, you think how you should react. I'll give you some things that we've told our clients, and we're doing ourselves.

Frank F.: First of all, you better have a strong balance sheet. By a strong balance sheet, it means two things. One, you should have lots of cash or liquidity. You should consider borrowing while the borrowing rates are good, and you always borrow when you don't have to borrow, because if you wait till you have to borrow, the likelihood is you don't get to borrow.

Frank F.: The second thing is we tell our companies to watch their receivables like a hawk. We tell them to secure their supply lines because in a downturn, not all your suppliers are going to make it. And if they don't make, you better have alternative choices.

Frank F.: And then finally, we suggest to them, think about something that's counterintuitive; something that your competitors might not do in a downturn that you would consider doing.

Frank F.: I'll take our own example. In May 2009, at the height of the recession, we bought a company called BearingPoint, which absolutely turned the table for us and made us a much stronger player in our federal business. I think it's important that you have a strong balance sheet, and that's the one thing that we tell our clients, is to be prepared for it.

Frank F.: But I think planning scenarios is as important and more important than forecasting, and it really gives you the ability to think through what you might do during a downturn.

Richard B.: Maybe for a moment if we can zoom in a little bit into the EU and look at Italy. I know Conte is meeting Jean-Claude Juncker tomorrow in Osaka and they'll be discussing ways for Italy to avert an excessive deficit procedure from the Commission. Lucio, do you think this conversation will be successful and can Italy stay within the rules of the EU budget?

Lucio de S.: We should start by saying, and [inaudible 00:21:27] comment to what was said before about the bubble on [inaudible 00:21:32] debt. I mean, I have some of the companies [inaudible 00:21:36] have a subscription to Moody's services, I'm not doing a propaganda for my old company. So if you're buying that, which is spec-rate territory, you buy the [inaudible 00:21:43] mode that is risky. Anyway, on your question. I am not going to speculate on what my boss President Juncker is going to be doing, but I know him to be an extremely successful individual. You can ask the American President on how successful and convincing he can be.

Lucio de S.: Now, the way that the Union performs fiscal surveillance through its Euro area members, so the member states which are in the single currency, is a regulated rules driven process with a significant degree of flexibility, due flexibility on the sense that we have to take into consideration real types of shocks and constraints which affect a country.

Lucio de S.: Any description that will be held between the President of the Commission and a head of state over European Union/Euro area member state, will necessarily be framed by the rules of the Stability and Growth Pact, our fiscal surveillance framework. If the Republic of Italy has a case which is compliant to the rules, the Commission and its representatives including the President of the Commission will be more than willing to hear the arguments of the Italian Republic as we continuously do on our interaction with the Italian government. We have very constructive relations and interactions with the Prime Minister of the Italian Republic, with the Minister of Finance of the Italian Republic. They have been constructive and open throughout, and I'm absolutely sure that any meetings and discussions in Osaka will follow the same rule book.

Richard B.: The Commission is in a very awkward position right now because-

Lucio de S.: We're always in an awkward [crosstalk 00:23:31].

Richard B.: Matteo Salvini ran a very successful campaign in May targeting Brussels as the enemy of Italy. If the Commission does take a strong stance against Italy, do you worry that it could push Salvini more in the spotlight and help further grow populism in the EU?

Lucio de S.: We have relations with member states which should not be described as robust, strong, or weak, but they are the relations that we are mandated by the treatise that founded European Union. On this sense, whatever we are going to be doing is going to be framed by the rules of the Stability and Growth Pact, and the actions of the Commission and the actions of the member state on the other side of the process will be guided by the rules and frameworks of our relationships. That's as far as I will go.

Richard B.: Okay, thank you. If we can move on to monetary policy, something that obviously cannot be ignored in the context of a possible economic crisis looming or not. Frank, do you think central banks are out of ammunition to deal with coming, if not crisis, then slowdown?

Frank F.: Are we out of ammunition? I think they certainly have less bandwidth than they did in 2007. In 2007, the federal rate at the time was, I think, five-and-a-quarter, and they dropped it in 2007 to four-and-three-quarters. And then there was 10 additional rate reductions between 2007 and December 2008, getting it to zero in the States. Today, the rate's what? Two-and-a-quarter? Something like that? So, they have about half the bandwidth that they did back then to deal with monetary policy. Now, they could certainly go and do the quantitative easing, and I think as it turned out, it was a great strategy to do the quantitative easing.

Frank F.: But the other factor about interest rates and monetary policy is that it takes time for it to work its way through the system. Just the fact that the Fed cut the rates 10 times in a year and a quarter and it still took months for us to start coming out of recovery. There's a lag, a natural lag between when they can do something, and the impact that you would see broadly.

Frank F.: It did seem to me in the last week or so that the central banks seem to be more coordinated than they once were. The same day that Powell talked, the Federal Chair and Powell talked about potentially keeping it steady, maybe looking at a rate reduction in July. The ECB talked about perhaps going more negative. China Central Bank talked about easing monetary ... It seems like they're a little bit more synchronized than they were a few years ago, but in answer to your question, I think they have some ability, but not near as much as they had 10 years ago.

Richard B.: And somewhat tangentially, are you concerned at all about the politicization of the central bank functions? Even here in Brussels, I mean it's a coincidence, but the choice of the next ECB president happens to coincide with the choice of the new Commission president. It's all sort of being packaged into one bundle.

Obviously, we have the President in the U.S. tweeting about what the central banks should be doing there.

Frank F.: It's hard to resist the pressures of President of the United States. I think the Fed, and I know some of the folks personally on there, I think the Fed is very much ... they very much want to be an independent body. I think that they are the type of folks that generally will stay above the fray, do what they think is the right thing for their country, take the hits, but it's hard to not pay attention to the pressure that comes from the Administration.

Richard B.: Sure.

Ceyla P.: Can I add to that?

Richard B.: Of course.

Ceyla P.: Because it's an issue that I feel very strongly about. I think it's very important to protect the independence of central banks. We have seen this time and again when central banks are attacked. You see the impact. You see the loss of trust really impacting both policies but also expectations. My plea would be to keep these institutions, which have been very critical, as operationally independent as possible.

Lucio de S.: [inaudible 00:28:16].

Ceyla P.: Both in the developed and the emerging market world.

Lucio de S.: [inaudible 00:28:20] one point on your remark about the alleged politicization, the process selection of the ECB. On my experience, regardless of the background, regardless of nationality, you go to Frankfurt, you sit on the Chair, and you become the President of the European Central Bank. It's your mandate, as the institution and the rules of agreement indicate, for you to take into consideration economic conditions across Euro area member states. Regardless of political background, regardless of nationality. That's what is going to happen this [inaudible 00:28:50].

Richard B.: I guess I should've clarified. I didn't really mean the politicization of the role of the ECB Chairman, of more of the process of choosing who will fill that role.

Lucio de S.: Process is the same as it was before.

Richard B.: Okay. But I mean before, the ECB Chairman's role didn't come up at the same time as the Commission role in the Parliament [crosstalk 00:29:16].

Lucio de S.: Which happens every 23 years, I should point out; the coincidence of the terms.

Richard B.: Now, I'd like to open it up to the audience. If anybody has any questions they would like to ask our panel, please raise your hand, and we have a microphone coming to you.

Simon Fraser: Hi, my name is Simon Fraser. I have two questions for Ceyla if I could. I was very interested in your five risk categories. Could you say a little bit more on two of them for me. First of all, how do you evaluate the scale of the geopolitical risk to the global economy? I'm thinking back to the presentation on China that we had before this panel. How do you scale the potential impact of the U.S.-China trade war on the global economy. And secondly, could you say a little bit more also about the scale of the climate related impacts that you touched on very briefly, say over the next decade, in terms of the global economy. Thank you.

Ceyla P.: Shall I take it? Okay. So, thank you for these questions. I think in terms of geopolitical risks, the trade tensions have huge implications on many other countries, both in terms of what I talked about, investment risks, but also in terms of the global value chains and how that works across all of the countries around the world.

Ceyla P.: In order to put a number on it, it's very difficult, but we have done some estimates to look into what would an escalation of trade tensions between different countries, especially U.S. and China, but others imply in terms of poverty, in terms of lost investment opportunities. The numbers are very substantial. I think we even had ... We were looking at how much of the poor go below the extreme poverty line, and that increases by about 30%, which is a very substantive number. We have very substantive robust rigorous research that we have just published about a month ago looking at the impact of trade on inequality. I think geopolitical risks, uncertainty have huge implications. We have seen this in the past because private sector will not take investment decisions when there's so much uncertainty.

Ceyla P.: In terms of climate related risks, that's a very large unknown because as I said, we see many of the implications of disasters, be it in Asia, be it in the Caribbean and so on, and that ranges from anywhere from 10% of GDP in terms of fiscal cost and implications on growth and employment to ... for some countries, it's about 200%. And here, I would take one minute to bring some optimistic signs in terms of some of the issues that were discussed, and there will be more discussion later today, on the role of technology in terms of being able to better detect in advance and take measures, contingent plans, to deal with some climate related risks. And if there's interest, we could go into this more. Thanks.

Richard B.: That's interesting. On the issue of technology, I was wondering, Frank, if you have any perspective on automation. I know there're a lot of worries about how that will affect the workplace and employment going forward. Do you have any thoughts on how that might shake out?

Frank F.: To say it's not going to impact people would be ludicrous. It's going to impact people for sure, but I'm always reminded, and I tell people, there was a time when we didn't have the automotive industry, and we went from horse and buggy to automotive and all the technology that came about from that as a result; the construction industry in the U.S. and the highway system, putting restaurants on the side of the road, and Motel 6s on the side of the road grew up. It's been proven for 150 years that technology actually in the long run creates jobs.

Frank F.: The challenges. What do you do now with a 50-year-old person who gets displaced? That's been the fear and one of the reasons I think populism has increased. What happens to that person? I think it's trivial sometimes to say, "Well, we train them." That's not so easy to do. But I do think that what's going to have to happen is that between a partnership between corporations and government, we're going to have to be able to do much more massive education, much more training, be able to retain people and teach them how to do new things.

Frank F.: In our company, as an example, as we have been moving aggressively to automate, what we have said is we're not going to release people at all. We're going to retrain them and redeploy them in other areas. I think companies are going to have to do that. It may cost some money, but I think in the long run, the company's culture will be enhanced, employees will be more loyal, and our business will be better.

Richard B.: Any other ... We have a microphone coming to you.

Daniel Gros: Daniel Gros from the Center for European Policies Studies in Brussels. A followup perhaps to the question which was asked earlier about the impact of a potential trade war. Bilateral trade between the U.S. and China is worth about one percent of global GDP. Why would we expect a large impact? As long as it stays between the U.S. and China alone; transatlantic tariffs on top of that would be something else. And on top of that, I think we have to think about what causes a crisis as opposed to recession. Extensive research has shown that it's always a buildup of debt before the crisis, and especially buildup of debt which everybody thought was safe.

Daniel Gros: My observation would be we haven't seen much of that. There has been perhaps some buildup of corporate debt in the U.S., but it's recognized as being risky. We have still the Italian story in Europe, but it's recognized as being risky. There's no big surprise there. So my question is, should you really expect such a strong impact from a China-U.S. trade war limited to these two? And should we really expect it to transform itself into a crisis via this accelerator mechanism through the financial markets.

Lucio de S.: Many thanks, Daniel, for these questions. You are analytically correct on the sense ... I am a trade economist by background; I started my career doing [inaudible 00:36:35] model. If you have a distortion which is essentially applied to only one pair of trading countries, what effectively happens is that the other countries become less [inaudible 00:36:48] competitive. As a matter of fact, if you do modelizations with the assumption that it's only going to be the U.S. and China which are affected, actually the rest of the world benefits from that design intuitive type of result.

Lucio de S.: The point here is, the key question, is this restricted to those two very important trade partners, and if there are no other repercussions in terms of, I'd say, global value chains, because it's not that intuitive, the fact that it's just between the United States and China.

Lucio de S.: You also have the expectational question. In the end of the day, you're observing the set of actions between Actor A and Actor B, and you may have a reason or expectation that one day it will spill over to Actor C, D, and E. And then you do have private sector retrenching in terms of investment on fixed capital, and this may have implications which are not fully covered by traditional [inaudible 00:37:47] in our delivery model estimations. And I was reminded, I was told never to use econometric language in settings like that because that's a no go.

Lucio de S.: I'll need to make one remark on what was said before about trade stresses. I personally think that one underestimated component of the way that changing trade partners affect developing countries is exactly the technological nexus, which is not per se related to trade stresses. Things like online, automation, reshoring, they actually shorten global value chains in a way which could be beneficial for certain regions of the world; I'm thinking of the United States and Europe as a matter of fact, and detrimental to other developing, emerging regions of the world, which were on those more prolonged global value chains. If we shorten them, because now it's more cost effective for us to be doing this between us and Turkey instead of doing this between us and Ethiopia, so much for us, but of course the other guys, which are now off the global value chains, they are affected. This is not related through trade stresses per se, it's through the technological shock.

Frank F.: If I could pile on as well. I do think you cannot limit trade issues to two countries. The supply chain is too globalized to be able to do that. What is mine is made up in part by yours, and what is yours is made up in part by mine. I think that it is going to be ... the thought that you can limit it to two countries, I think we've moved beyond that.

Ceyla P.: I'm going to add to that as well. We were instructed to get up, so ... I think what we also need to think about is what that means for China's growth and what are the implications for China's demand from the rest of the globe. What has been happening in the last decade, and I sounded a bit pessimistic, but I also wanted to say that we have made enormous progress in addressing global poverty. In the last decade, the number of countries that used to be considered low income declined from 60 to 30. That's a huge achievement. A lot of that is actually in Asia. There's a lot of progress with exports being able to access global value chains and so on.

Ceyla P.: Much of that demand was also through China. So, the key question I think we should ask ourselves is if China starts becoming more focused on internal demand, will that increase global demand, and what will be implications in terms of global growth, and how do we assess that prospect of changing dynamics globally.

Ceyla P.: The second issue you asked about debt and the riskiness of debt. We are much better prepared in terms of the financial sector, global finance sector, after all these regulations, which were taken in an unprecedented coordinated way since the global financial crisis. But we do see a large increase in collateralized debt obligations. They are small, but so was the subprime. It was small, but it turned out to be much bigger repercussions. What we really have a hard time understanding usually is the network effects, how a small problem can be interconnected through different systems. I think we need to be prepared and we need to take actions, and here, the need for international collaboration becomes very critical.

Richard B.: Any questions from this side? I think we have a couple ... sir?

Speaker 9: [inaudible 00:41:54] in Istanbul. I just want to come back to the question of technology. How confident can we actually be that our past experience with technological shocks over many centuries is a good indication that that's exactly what's going to happen in the future as well. So that technology optimism, should we really be a bit more attentive to it, because we also have to think, I think, about the alternative scenario of the past experience not being able to extrapolate into the future, and therefore we're looking at a future that's much more disruptive, both in terms of income inequalities, between countries and within countries, and that obviously spells a lot of trouble in terms of how we deal with populism and the fragmentation of the multilateral system.

Frank F.: Well, I don't know how to answer it necessarily. I mean, I kind of view past as prologue and think that there is ... I think it does affect people in the immediate term. I think people are smart enough to [inaudible 00:43:15] and figure out what their path needs to be if certain jobs are no longer available. But I don't want to minimize the pain that if you lose a job that you have. It's a real pain in the sense of the emotional pain, the financial pain. I don't think automation and displacement of people will get fixed immediately, but I think over a term, more jobs will be created. I see no reason we should think that today it's different than technology in the past, or I'm certain the same sort of issues and the same sort of questions arose.

Frank F.: Listen, no machine can express emotion. No machine can make necessarily rational decisions. No machine can communicate that well. I think there's going to be different needs, different skillsets that people are going to have to have that they don't have today. I think that's the evolution that will transpire as we continue to automate.

Ceyla P.: I do think there's a potential risk of an increasing digital divide. There are many countries in the world that don't have access to internet; the corners of the world where 40%, 50% of people do not have any connection. I think that, with aspirations growing, is a concern. And I also don't think we understand the risks of technology that well, in terms of data, privacy, data location, in terms of cyber risks. Again, it requires a lot more international coordination and preparedness.

Richard B.: I think we have another question back here.

Christoph M.: Christoph von Marschall from Tagesspiegel in Berlin. I would like change a little bit the path of the question. All we have discussed until now is possible shocks, crisis management, short range issues. But if you think much more strategically into the future, is there still something like the community of free market economies which want to shape the future, which want to set rules? Because still today, if you count everything together, United States, Europe, Japan, South Korea, Australia and New Zealand, that's 50% of the world GDP. It's no longer 60.

Christoph M.: I mean 10 years ago, we wanted to shape the future. We were thinking in terms of free trade agreement, which contain China, which put pressure on China to obey to certain rules. Is this all gone? Are the splits between today's United States and Europe so big that we are no longer able to pull the same direction? Have we already given up the opportunity of shaping the future? What are your ideas about that? Where are we heading within the next 10, 15, 20 years? Slowly giving up, maybe even unconsciously, the ability to shape the rules of the future today. The West is twice? Is there still something like the West? It's still twice as important as China? Maybe even more than twice. Of course, our percentage of the world GDP is slowly going back.

Lucio de S.: Okay, I'll give it a try on that, and I'll just standing and addressing the neglected side of the room. [inaudible 00:46:40] start by saying that, as we all know, the Union is a committed multilateralist. That doesn't mean that we are planning to be the last guys on the multilateralist salon. We do that not only because of our values, the clear interests of the Union and its member states are on an open system of global trade and exchange. It's always very pleasurable when your values are congruent to your interests, so we are in a very nice spot here.

Lucio de S.: We do have a significant margin for agreement with our traditional counterparts in the United States in many areas in which are sometimes misreported and misunderstood. We have significant congruence, for instance, in terms of our operations and works in relation to Ukraine. We have significant congruence in relation to what we perceive as actors which don't abide by level playing field rules which are not designed to benefit the United States and the European Union, but are designed to benefit all global economies. We do this because in the end of the day, free trade is beneficial to you, to me, to that lady over there, to that gentleman on the back bench.

Lucio de S.: We think of global rules as something which are therefore a win-win game for everybody. Not something that is designed to hamstring or to contain particular types of economies, which allegedly have different interests, but because this benefits [inaudible 00:48:22]. [inaudible 00:48:22] would you say that even in areas related to the reform of the multilateral trade framework, there is broad agreement between the United States and the European Union and other partners like Japan, for instance, and also things in which we keep on working to build upon.

Lucio de S.: I would not be reading the R.I.P. sign to multilaterism yet. I do think that there is a significant set of advantages that we all derive from that, and that's the reason why I strongly believe that the system will continue in the future.

Richard B.: [inaudible 00:48:59], you want to speak to the question? If not, we've got time for maybe one more question if somebody has one.

Frank F.: The only thing I'd say is I think there're some things that need to be done systematically to spur growth and to continue the history that the U.S. and Europe lead the world in GDP and in growth. I do think venture capital is really, really important. It spurs innovation. It feeds startup companies. And sure, startup companies have a risk of failure much more than mature companies, but a third of most of the early startup companies are viewed as innovative. Innovative companies grow faster than mature companies, and they bring to scale new products and new services.

Frank F.: I think venture capital in the U.S. has had a huge impact on allowing that 10-year run to continue. Contributing, you're making investments in companies like [Jewel 00:49:59] or Uber, where those sorts of private companies are tech-based has had a tremendous impact on, I think, innovation throughout the world and growth in the U.S.. I do think Europe needs to have a venture capital program on steroids. The venture capital market in the U.S. is about six times that of Europe. It's a really important distinction because I think that's how we could continue the trajectory in some part.

Richard B.: Since we've touched on trade and the transatlantic relationship, I think it's worth maybe exploring that a little bit more. Right now, the U.S. and the EU have begun negotiations on a possible trade pact under the threat of auto tariffs from the U.S.. If the U.S. does impose a 25% tariff on European automobiles going into the U.S., what effect would that have on the economy in general?

Lucio de S.: Allow me to start by saying that we are in ongoing discussions with our America counterparts, which I stress are an important and appreciated partner of the

European Union. In many areas, those discussions have been extremely productive. You all know the increase in imports related among other things to our energy security of natural gas from the United States in some areas of the ... [inaudible 00:51:29] steel complex. We are still working on further areas to expand on our relations with the United States.

Lucio de S.: In the unfortunate situation in which [inaudible 00:51:42] will comply and behaviors would be introduced into exports of the European Union, we have made clear to our counterparts that we will use the tools at our disposal, including the predefined list of goods and services under which as allowed by [inaudible 00:52:03] rules, we would be imposing surcharges. So, we continue negotiation. We have the utmost confidence on a positive outcome for all involved, including the global economy. But then the unfortunate situation that's not going to be the case, we will be prepared with all the due legal rule-based instruments that we have at our disposal.

Richard B.: When the U.S. was ... before they made the decision to impose tariffs on European steel and aluminum exports, the EU flirted with the idea of engaging in voluntary export restraints of steel and aluminum to avoid those tariffs. Do you think it would be a good idea for the EU to propose such a measure with regards to automobiles?

Lucio de S.: As I indicated, our behavior is conditioned, our own [inaudible 00:52:54] compliance types of actions, and whatever we decide in this theoretical scenario would be [inaudible 00:53:03] compliant. My own personal take, given the discussions that we have and the positions that we have expressed, is that the action, we base it in terms of the counter value in duties which are allowed by the [inaudible 00:53:17] rules in certain situation.

Richard B.: Thank you very much. I think that's about all the time we have, so thank you very much to all the panelists. And thank you everybody for joining us. I now invite to the floor Nina dos Santos and the next panel. Thank you very much.