Center for Strategic and International Studies

TRANSCRIPT

Event

"Betting On America: Rebalancing and Reform featuring Indermit Gill"

DATE

Friday, July 25, 2025 at 10:00 a.m. ET

FEATURING

Indermit Gill

Chief Economist and Senior Vice President for Development Economics, World Bank Group

CSIS EXPERTS

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Transcript By
Superior Transcriptions LLC
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Navin Girishankar: Hi, everyone. Navin Girishankar here at CSIS. Welcome to Betting on America.

For this episode, I'm sharing with you a conversation I had with the World Bank chief economist, Indermit Gill, on global growth prospects; challenges that developing countries are facing; and, importantly, opportunities that developed countries have in really solving development challenges going forward.

What I thought was particularly valuable for those who care about U.S. industrialization were Indermit's insights on the sources of structural imbalances in trade; his thoughts on populism and the future of economic reform; and, importantly, opportunities that advanced technologies offer not only for developing countries, but, importantly, for U.S. exports. It was a really interesting conversation for anyone who cares about U.S. industrialization.

(Music plays.)

We are living through an era of unprecedented trade and policy uncertainty – uncertainty that is flowing through the global markets, affecting global growth prospects, particularly in developing countries. What does the rise of populism mean for the future of economic reform – reforms that could generate growth and reduce poverty around the world? What does the rise of new technologies and multiple technology revolutions like AI, biotech, clean tech, next-gen telecom mean for the opportunities for countries to leapfrog and address longstanding development challenges with new solutions?

We're going to talk about this and more with Indermit Gill, my good friend, chief economist and senior vice president at the World Bank Group. Indermit, thank you so much for joining us. I'm delighted to have you here.

Indermit Gill: It's a pleasure to be with you, Navin. It's a pleasure.

Mr. Girishankar: You have recently come out with the Global Economic Prospects report. I wanted to start there. It's one of the flagship reports of the World Bank. The team – yourself and your team have put out, really, growth projections that are quite sobering, and they project global growth to decelerate to the slowest rate since 2008. And for developing countries the picture is even starker: Growth has fallen in the last decades, in the 2000s, from 5.9 percent to just under 3.7 percent in the 2020s. A lot of this also has to do with unprecedented levels of trade and policy uncertainty that we're experiencing now. I think I read a blog where you say developing countries are now a development-free zone. I found that a striking statement. So help us understand what's going on.

Dr. Gill: Got it. Excellent question. So we did a fairly big report that looked at the long-term growth prospects of countries around the world, and the striking finding, Navin, was that across the world the potential growth rates were going down. So they were – they were very healthy in the 2000s, and then they went down in the 2010s, and they ratcheted down in the 2020s. And so, as a result of that, I think – I think that that's – so that's a backdrop, in a sense.

Mr. Girishankar: Yeah.

Dr. Gill: Now, there are some countries that are exceptions, by the way. One country that is an exception is India, right? Right? And there are a few others like Indonesia and others which have tended to maintain. For the others where you haven't seen a drop, they are actually already at very low levels, like, essentially, Latin America and Africa. So that's a backdrop.

So then, beyond that, if you sort of look at it, there are two other trends. The first trend, of course, is a very cross-sectional one in a sense that as you go from – as you go from emerging markets like India, China, Indonesia, and others, their prospects are not that bad. Then, when you go to the smaller economies and the poorer economies, their prospects tend to be worse. So for an example, I mean, if you look at Africa, sub-Saharan Africa, I think the nearest approximation for their growth over the last decade or so is per capita income growth of zero, essentially, OK? And I think that when we look at the prospects looking ahead, the prospects look like that decade is going to get repeated for many of these countries, the low-income countries especially. So if you – so that's the – that is the second part.

The third part, of course, is that if you look at the most recent shocks like trade policy uncertainty and things like that, they tend to be – they tend to hurt the smaller economies a lot more because smaller economies depend a lot more on trade.

Mr. Girishankar: Yeah, market access.

Dr. Gill: Market access. So for all of those reasons.

Now, when I said development-free zone, you know, I guess the best way to put it is this: If you looked at the MDG period, the period of the Millennium –

Mr. Girishankar: Which is the Millennium Development Goals, right?

Dr. Gill: You know, we said we made a lot of progress there, et cetera, et cetera, but a big chunk of that progress was China, Navin.

Mr. Girishankar: Ok.

Dr. Gill: OK. Actually, for many of the indicators in other parts of the world, there was regression, not improvement. But China –

Mr. Girishankar: Wow. And so this was the first decade of the century.

Dr. Gill: That was the first decade.

When we're looking at this decade now and look at the period of the Sustainable Development Goals, instead of China you've got India. So India's actually making things look a lot better for the world, but actually you have a lot of other countries – the poorer countries, the countries in conflict, et cetera – they are the ones – they actually have not – they are not seeing development. That's what I meant by a development-free zone.

Mr. Girishankar: I got it. So given the size of both those countries – China in the first decade, India in the second decade – the aggregates look better than what's actually happening in the case of, say, countries in Africa or countries in Latin America.

Dr. Gill: Absolutely.

And so then you say, OK, what happens next? Who's going to replace India and China now they're gone? And the prospects don't look good. That's – yeah.

Mr. Girishankar: So let's just double-click on this because I want to understand the drivers. So if – like I don't want to overindex on what's happened right now with uncertainty, although that's something we should get into.

Dr. Gill: Yes.

Mr. Girishankar: But when I – when I – when we think about the first decade of the century and the second decade of the century, there have been some important events: the global financial crisis, the pandemic shock. But were those the main drivers of reduced growth prospects during that period, or was it other things?

Dr. Gill: So those are – those are things that actually ratcheted things down rather quickly, but the things that actually lead to declining drivers of growth are more long term. So one of them, of course, is – you can sort of think about three things. The first part is capital. The second part is labor. The third part is energy. And then the fourth part is technological progress, right?

So if you look at all of this stuff, what you find is, in terms of demography, you find many of these countries are aging. Not all of them – not Africa, not India yet, that kind of thing – but that's one of them. So if you look at East Asia, for example, a big part of the declining drivers of potential growth was demography.

But the second part is equally important in the sense that if you look – you know, many of these countries base their strategies on a lot of investment – investment. But investment paid off less and less with each dollar in terms of growth and so on, so that – and that part essentially is declining productivity growth of these countries. So in a sense, these countries had to improve their – the way that – the way that they combined all of these factors of production and things like that, but more and more efficiency because you can't rely just on more work and more investment and so on. That only takes you up to a point. So these countries all hit that phase where they needed to generate greater efficiency, and they failed in doing that or they're increasingly failing in doing that. Not all of them.

And, now, if you say, OK, but what are the sort of reasons why the '90s were good, the 2000s were even better, and then we've sort of hit this declining trend, there were these – there was a consensus.

The first consensus was let markets take the lead and let governments give them support, and I think that spread across the world. But that was a very American idea, by the way. I mean, it was a great idea.

The second one was macro stability is really important, especially for the poor. So inflation is – slow growth is bad, but inflation is a killer for poverty reduction. And there was a sense that don't spend beyond your budgets, don't print money when you do spend beyond your – et cetera.

And then the third part was trade. So countries become suppliers of goods before they become demanders, so trade really helps on that one. And the – and the flipside of trade was, of course, the flows of foreign direct investment.

All of these things, there was a consensus about them. And this consensus, one by one, has frayed.

So this thing about let the private markets take the lead and so on, that started to fray once you had the China model, you know?

There was a sense that, oh, well, you know, you can – because interest rates are so low, you can run – you can run big deficits because you can finance them very cheaply. And that got us into trouble, all right? And that was mainly a Western phenomenon, but not just.

And then the third part, the trade part – and I think this is something that I'm sure you're thinking about – is that this period of success led to these countries – I'm talking about the emerging markets – becoming a bigger and bigger share of the world economy. And at some point, it starts – it starts to matter in the countries that were richer. When these countries are 20 percent of the world economy, the flipside effects are not that great in the richer countries. When they are 40, 50 percent depending on how you measure it, now you're talking about huge effects on richer countries, too. So I think that's what we are seeing played out. So, as a result of it, trade was, of course, the first casualty.

But I mean, we just finished a report on foreign direct investment. Foreign direct investment has just tanked, OK? It's gone, basically, OK? And now, then what happened? And by the way, foreign direct investment was tanking at the same time that domestic investment was tanking. Now, why was domestic investment tanking? Domestic investment partly was tanking because, you know, once you start to spend beyond your means, once governments start to spend beyond their means, you accumulate a lot of debt, OK? And countries that accumulate a lot of debt tend to be lousy places to invest in, you know, not just for domestic investment; foreign investment as well. So you sort of see that happening.

Mr. Girishankar: Yeah.

Dr. Gill: Anyway, I'm sorry to depress you, but it's a depressing picture. Yeah.

Mr. Girishankar: No, it's fine. And I think, look, part of the challenge is to focus on what's the overarching goal. And I think if you think of long-term productivity growth and you – you've laid out so many of the elements, at least what was the consensus on how to drive that and challenges to that, particularly let's just say a kind of statist industrial policy model which many, many countries, even, say, in the – around 2015 or so, were having a fairly open reevaluation about the role of industrial policy, really compelled by the example of China.

Dr. Gill: Yes.

Mr. Girishankar: And the thing is that they don't necessarily have the deep pockets and the ability to absorb inefficiencies in the implementation of industrial policy like China has.

Dr. Gill: Yes.

Mr. Girishankar: And so when you think of smaller countries in Africa trying to do that and identify particular sectors where they are going to be competitive, there is the risk, for example, of mistakes. Can you give us your thoughts on this

shifting away from what was the Washington consensus to this kind of other approach to how to drive productivity growth? And where are we on that front?

Dr. Gill: I think we are probably on the side of abandoning in the Washington consensus too much and we need to go back towards that.

Mr. Girishankar: Right.

Dr. Gill: I mean, you know, it was never seen – I don't think the Washington consensus was ever seen as a full recipe for progress, but it was seen as the necessary ingredients on which you could build these other things. So I think we need to go back to that in the sense of, you know, get your fiscal deficits in order. And this is true for pretty much every country, I think, right?

Mr. Girishankar: Yeah.

Dr. Gill: There are few exceptions that – and those – and those exceptions, by the way, are – those countries that tend to have low public debt ratios and so on are countries that depend a lot on commodity exports. And commodity – and the thing about commodity markets right now is that they have also entered a phase where commodity prices are going to be low and commodity price volatility is going to be high. So even for them there is this problem of managing their fiscal policies and so on. It's a different dimension, but it's an equally tough problem.

But for these other countries, I think one of the things is just let's return to the fundamentals of living within your means, you know? And I think that that's the first thing.

The second one is I think that, you know, what we ended up doing was we ended up forgetting that a big part of progress was affordable and reliable energy, you know, and we went away from that. And I think for a good reason in the sense we were worried about climate change and things like that, but I think we ended up focusing a lot on where the energy was coming from rather than how countries were using the energy. And what you really want is you want to use these energy resources frugally, efficiently. Instead, we started to focus a lot on, you know, oh, get rid of fossil fuels, you have to do this other thing. I think that balance is coming back too. It's a sensible balance. And I know it's also related, by the way, to the other thing that you mentioned about AI and datacenters and so on because, I mean, you have very high energy needs for that too.

Mr. Girishankar: Yeah, and I want to come to that. I mean, you know, we do a lot of work on technology competition/technology competitiveness here in our shop, and one of the things we think about as – when you think of technology as a

driver of innovation and productivity, we think about technology enablers. And energy is one of the primary technology enablers.

Dr. Gill: Yes. Yes.

Mr. Girishankar: Obviously, skilled technical workforce is as well, creative capital markets. There are many elements of that. And you know, that's another way to look at what are those fundamentals, right? And I'm so glad you described the need to – maybe for the pendulum to swing back a little bit more, because sometimes I worry that in the midst of the rise of populism – which I know you've written about and talked about – and the reevaluation of the role of the state in productive activities, I sometimes think we are forgetting the timeless and universal power of markets.

Dr. Gill: Yes.

Mr. Girishankar: And I'm worried about that. And I think that's what you're saying, but I don't want to put words in your month. I want you to share with us your thoughts on that.

Dr. Gill: So, you know, I guess this thing about populism, right, I mean – so populism can rise in a lot of places and it really doesn't change the world that much. When it – when it happens in a big economy like the United States, it changes the world, OK?

Mr. Girishankar: Right.

Dr. Gill: So I think it's very important to see what's the reason for that.

And I think – I think that when you look at that you sort of say, all right, you know, really it has to do with the two biggest economies in the world now, the U.S. and China, and their relations, OK? And I think one has to look to see whether or not these relations were sustainable, in a sense, and I think the answer clearly is no.

So then the next question is, why did we get to this point where it required such a – something that looks like a rupture? And I would say that's where the – that's where – that's where international institutions like mine – the World Bank – the IMF, the World Trade Organizations, I think that we didn't see all of this coming. I don't think we did enough to make sure that things stayed on a stable, sustainable footing.

I'll give you an example. There are these three things that really matter a lot. The first one is tariffs, the second one is – the second one are currency values, and then the third one are nontariff measures and so on. Because what you really want is – I mean, again, I think that the free exchange of

goods and capital and so on is a very important part of that progress that happened. So then you say, what actually led to that suddenly coming to – I mean, creating so much angst? It hasn't come to a stop, but it's creating a lot of angst. And so you say – if you look at that, you find – the first one, of course, was if you have a large economy that actually keeps currency values undervalued, you're going to have imbalances, OK? And so you saw that. So as –

Mr. Girishankar: You're referring to China.

Dr. Gill: I'm referring to China. As a result, China consumes too little. And on the U.S. side – somebody has to consume too much for them to consume too little, and so it's the U.S. that actually consumes too much, OK?

So then the second question is, OK – so that was the first one. Now, who's supposed to call that out? It's supposed to be the IMF, and it should call it out. It didn't.

Mr. Girishankar: This has been a longstanding issue. It's not – it didn't happen yesterday.

Dr. Gill: It didn't happen – it happened between 2001 and 2009, mostly. But I would say if you look at economies now again, you know, you'll likely start to sort of see maybe there is again this currency undervaluation and so on in some economies, and as a result of that one has to do something. That's the first part.

The second part is the part that actually has been a big part of the debates right now, which are tariffs. And if you look at the tariffs, I think people just got used to the U.S. allowing access to its markets at much lower tariff rates than U.S. producers and suppliers had access in their markets. I mean, we just looked at this, and I can cite you numbers. But basically, if you go down the list of countries, the groups of countries from high-income economies like Europe and so on, down to upper-middle-income countries like China and lower-middle-income countries like India, down to low-income countries like Ethiopia and others, everybody just got used to this world where they said the U.S. would apply much lower tariff levels and so on than – I mean, you can do that for a while, but you can't do that forever.

Mr. Girishankar: Right.

Dr. Gill: Right? And I think we ran out of time there. So that's the second part. And I think that was the WTO's job, to call it out and so on. And then if you – you know, what it really did require was not so much the WTO calling it out, but changing its rules, because once a country has – let's say, for example, it has 40 percent of the world's manufacturing output. It should not be considered a developing economy for that reason.

Mr. Girishankar: Right. Right.

Dr. Gill: When would it be considered developed, when it gets to a hundred (percent), you know? Of course at that point. So at that point a country has to have not a definition that it gives itself, that it's a developing economy, but a definition that is a multilaterally agreed one which says this is the category where you are. And as a result of it, these are the kind of additional tariffs, et cetera, et cetera, you can have.

And then the third part was the nontariff measures. And I think that's where the World Bank, actually – and we were cheerleaders. I mean, I was in the World Bank at this time. And we were cheerleaders for countries like China. Why? There's so many poor people in China. And this model was great for poverty reduction. This –

Mr. Girishankar: Sorry, explain again that – you were advocating for reducing nontariff measures?

Dr. Gill: No.

Mr. Girishankar: Or you didn't advocate enough?

Dr. Gill: We didn't advocate enough.

Mr. Girishankar: And I don't mean you personally, but I mean the organization.

Dr. Gill: Yeah. Yes. We didn't advocate enough, especially on the services side, because that's where the U.S. has a comparative advantage, financial services. I mean, those sectors tended to be closed.

Mr. Girishankar: Well, you know, let me just – so this is such a fascinating perspective, especially given who you are and the seat that you're in and your research over the years. It's a very rich perspective. And I think it resonates with what I believe now is an emerging consensus on the part of the United States, bipartisan consensus, that structural or persistent imbalances are no longer tolerable, that coming off of the pandemic and coming off of the last 40 years of, I would say, economic dislocation in the United States, as well as – and you didn't mention this, but I'll mention this – a recognition of national security risks, or civil-military fusion risks on the part of the PRC.

All of which contribute to what we are seeing, which is the rise of economic security policy. Not just economic policy, but economic security policy. This also has a risk, which is that you over-index on the role of the state in productive activities, where you might undercut the drivers of productivity.

And so, like, there is a very – like, you're trying to thread this needle here. Perspective on that.

Dr. Gill: So my perspective on it is – look, we don't work on those, I mean, strategic issues. We work on international issues driving, like, security, and things like that. But even if you take those concerns off the table, it was not a sustainable situation.

Mr. Girishankar: Yeah. That's great. That's a great perspective. Fantastic. Let's just talk about export-oriented growth, because that was such an – like, you think about the East Asian miracle. You think of Korea. You think of number of East Asian countries – Japan, obviously, you think of Malaysia, other countries. Export-oriented growth, meaning – which assumes certain access to large markets – was a huge driver of manufacturing-led growth. And even, I would say, five, 10 years ago there was a recognition that, well, is that pathway available to African countries? Is that pathway available to India? Or is there something that one needs to consider around services-led growth? Where are we now on that debate? Because I just think it's an important part of the puzzle of what is a robust economic policy for developing countries in the current world that we're in.

Dr. Gill: Yeah. Before we get into the sectoral – and we'll get into the sectoral part, like the agriculture versus services versus manufacturing – stay with me a bit on the macro part, OK? Say that I've got a – so I have a strategy. I want to – what I want to do is export-led growth, right? So what I then do is I – you know, generally speaking, what I end up doing is I end up keeping my currency values lower than market. That gives me this big edge. So that was the East Asian strategy. And we never sort of called it as, like, a violation of international rules. We should have, OK? Now, when it was a small economy like Taiwan, China, or when it was South Korea, it was OK. But if you remember, we've seen this movie before at a smaller level with Japan, OK? So I think that then what you end up doing is you keep currency values low, and then you run big current account surpluses.

Now look at the alternative. The alternative is maybe, for whatever domestic reasons and all, you can't keep currency value low. And let's take the case of India, where it had, I mean, an overvalued currency. What you then end up doing is you end up having to have tariffs. So then these – then there you have these higher tariff walls, right? So as a result of it, in one way or the other, you end up distorting things. So, you know, we say trade helps a lot, and, you know, free trade helps even more, but there's no free trade. So as a result of it. Now that part – that part needed changing. And it is changing.

So one of the things that we always try to tell the countries that we work with is saying, look, you have to negotiate with the country that gave access to its markets on relatively preferential terms. You have to negotiate with

them in good faith and make things much more reciprocal, rather than – it's a noisy process. It's a noisy process. But that's what we would say – negotiate in good faith, try to bring your tariff levels in parity with this, so at least you have – that's the first part.

Mr. Girishankar: And, by the way, there are winners and losers with all of this. And so that's the political economy of this whole negotiation, or set of negotiations, many of which are ongoing right now.

Dr. Gill: Exactly. Exactly. And then the other side, the point that you mentioned, I think the short answer to your – to your question is, you know, when you have such big economies as India and China enter the market – so, for example, the growth strategy for India could not possibly replicate what China did, OK? Maybe for a small economy like Bangladesh, you could do it. But for a big economy like India, especially if it wants to be ambitious and it wants to – it cannot be the same strategy. By the same token now, let's think of this other big economy. Let's call it sub-Saharan Africa, or Africa, including northern Africa. It cannot be the same as what India did, OK? It can't be services. India, once it decides to get into services, or modern services and so on, there's not much space for anybody else, not easily, see? I'm not saying that we are sure about this. But what I'm saying is, you better be – you better keep that as a very likely scenario where now you need to think about something else.

So then you say, OK, what's left? OK, of course, you know, services are a very big bloc. So you can sort of cleave out the services. The services in which countries like India have a big advantage, take out the others. Or you get into – because many of these countries used to have a lot of people working in agriculture. So then you have to sort of say, OK, let me try to sort of see how I can get huge increases in agricultural productivity without also getting people out of agriculture, which has been the model all along. These are not easy questions. But I think there's these new technologies that we are talking about and so on, applied to agriculture, do have a potential for some of that, you know? Anyway. This is very conjectural stuff.

Mr. Girishankar: This is fascinating. I want to jump on the technology point, and then I want to hit a couple of more questions. You've taken us through this really panoramic view – growth prospects, the long-term history, the short-term moment that we're in, rebalancing, and really I think where we may have gotten our eyes off the ball – both the international community but also policymakers in developed and developing countries. Really fascinating.

Let's talk about technology. Our department is focused wholly on the economic security dimensions of the technology revolutions, right? And so when I think of what we're going through, I often say we're not living through one Sputnik moment. We're living through five – AI, and chips, and

quantum, that triad, biotech, including synthetic biology, clean, and climate technologies. And some of these bleed into each other and have, like, an impact on each other. For example, AI and synthetic biology. So – and they all sit on a spectrum of special purpose all the way to general purpose technologies.

And so when you think about this – and, you know, there was a podcast – our Betting on America Podcast where Brad Smith spoke eloquently about this. There are significant potential applications for development. And I know the Bank, World Bank, has been writing a lot about this as well. Say, for example, with AI. What is really interesting here, as these trade negotiations are ongoing, they could either be around tariff concessions and maybe some NTBs that need to be reduced, or they could also be about technology. And the reason I raise this is because U.S. services exports, AI-enabled exports, technology exports could be a significant pathway to achieving rebalancing, no? Am I – can you tell me if I'm right there and share your thoughts on this?

Dr. Gill: This is what – if you talk like this with somebody who's from an emerging market economy, either government or private sector, this is music to their ears. They want huge technology transfers, OK? And they don't have to be technology – uncompensated technology transfers. They could be compensated technology transfers. But they really do believe this. Now, once you see that, then you start to sort of say, OK, let me look at the other effects of technology. Let me look at the economic and the social effects of technology, and the political effects. So one of the things that we are trying to do, Navin, is that we actually have – our next World Development Report is on artificial intelligence. And we are looking at all three of these effects.

Mr. Girishankar: Amazing, yeah. And so that's – just so people know – that's an annual report that you put out. It's really one of the – it's the flagship World Bank report, yeah.

Dr. Gill: It's our flagship report. And so normally we have, like, a one-year effort to do it. In the case of – in the case of machine learning, artificial intelligence, so on, we found that it wasn't – we didn't have – we didn't have enough evidence and things to build on yet, so we made it a two-year effort. So our team is actually engaged in a lot of research and outreach and so on. We're working with people at Stanford, and Chicago, and Harvard, and so on. Then the next year we'll actually put all of this stuff down. What are the implications for all of this for?

Now, but I know that you don't wait until next year. So, so the question is, OK, what – now our East Asia region actually has – I mean, it can't wait until next year. This is where a lot of these things are happening. So they put out some really good work.

Mr. Girishankar: I saw that. That was really great.

Dr. Gill: You saw that. Yeah.

Mr. Girishankar: And we will link that to the YouTube post for people to take a look at that. It's really quite interesting.

Dr. Gill: Yeah. I mean, this whole thing about jobs and technology and so on. One of the nice things – for example, what they found is that – is that if you look at – not at AI, but they were looking at robotics and things like that. And they said, OK, what are the effects of these things? Do they displace labor? And the picture is complicated simply because it has two effects. The first effect is, of course, it displaces labor. But then second effect is, if you adopt these technologies, it increases your efficiency and competitiveness massively. So as a result, you get a larger share of the market, the world market. And that increases the demand for labor.

On net, they are finding that it actually – at least for these countries, it is a plus, a big plus. And along the way, it creates pressures to sort of upskill your labor too. So you have this very strong demand push, and so on. So, again, the early adopters of these technologies might end up gaining, and later adopters might not be able to. Yeah.

Mr. Girishankar: Yeah. It's really interesting. I shared on another podcast a chart that looks at surveys of optimism around AI. It's an Ipsos poll. And the IMF AI Preparedness Index. And what you find is many emerging markets are very, very high on the optimism scale, obviously low on the preparedness scale. And the way I think about that, as an American, is that is the golden opportunity for American AI, that gap?

Dr. Gill: Yes.

Mr. Girishankar: So, I mean, that's a normative point. But I welcome your thoughts on it. But as you answer that, consider this. There's also, like, a decoupling agenda around the tariffs. And that has its impact on technology stacks, which one are you going to buy into as a developing country. Could you just share, if you do believe there's an opportunity for American AI in developing countries, a tech offer to developing countries, what is the nature of the challenge that a developing country faces when they're also faced with an offer from China?

Dr. Gill: Well, first one is, as you were talking, I remembered a conversation I had with some businesspeople from India. And they had a very – they had a very good example, because what we – you know, we had done this report where we were saying, look, don't jump to innovation. First, you know, from an investment-led strategy, add on what we called an infusion element. So this was our World Development Report on the middle income trap last year. And

we said, you know, add on this infusion element. This infusion element basically is just copy technologies from abroad, adapt them, you know, rather than putting a lot of R&D, et cetera, into new technology, de novo technology.

And we contrasted strategies of South Korea versus Brazil, et cetera. And we found one worked really well, the other one didn't work at all, you know? Now, when we discussed this in India they actually gave us some really good insights about how the world of AI is changing some of this stuff. It may not change the entire fundamentals of this, but it can change things enough on the margin that it makes a difference. And the example that they gave was, like, the Uber Eats kind of services. And basically what they were saying was that if – when they looked at this, they found that if you don't – if you don't need a human intervention to one of those transactions, if somebody orders food and so on, if it's entirely web-based, you save roughly 70 rupees per transaction. If a human intervention is needed, you pay 70 rupees extra. And that 70 rupees really goes to a college-educated Indian, you know?

OK, now what they found was, with the pressure of competition, they could cut that 70 down to 10 or seven by using AI. Now, but they said that that seven or 10 doesn't go to an Indian company. It goes to a company in U.K. Or, what you're saying is, I want that money to come to a company in the U.S. But they're onto that. Because they're saying, not only am I losing demand for my college-educated workers, now I have a net transfer out in terms of intellectual property payment. So I think that – I still believe – I still believe that many of these people are actually part of the U.S. technological ecosystem and so on. So as a result, the U.S. can actually gain a lot from that, but it requires a little bit more thinking. And I think that's why I think it's really good that you guys are thinking about it, because it's not that simple a problem, in the sense of saying, you know what? We can't export X things anymore, let's just export technology. Well, not so fast.

Mr. Girishankar: Such a great conversation. I'm going to do some quick hits. I know your time is valuable, but I don't want to lose this opportunity. So let's talk about innovation. For some time, U.S. economic security policy has assumed that the locus of innovation on advanced technologies is here. Hence, we have export controls – not in all cases, but in many cases. We have to protect the technology advantage, that's the imperative, right? What happens when technology innovation is located elsewhere? Like, obviously, China, but maybe not only China. Maybe in other countries. Maybe in some emerging markets are the source of innovation, particularly in this day and age. What are your thoughts on that?

Dr. Gill: So, you know, we did some work for the Europeans some years ago, just before the COVID crisis, about all of this stuff. And we ended up comparing Europe and U.S. and China. And we said, OK, which of these places is best, sort of, suited for, like, a big push on AI and so on? And the place where I

concluded was it was the U.S. And the reason was the following. We said, OK, you know, for you to do well on these things, you actually need three things. You need big money. You need business process innovation. And then you – the third thing, you need efficient tax and transfer systems, where they have huge distribution effects.

And what we found was on big money, at that point, China had a big advantage. They were putting a lot of money into it. On business process innovation, U.S. easily. You know, bringing these – bringing these technologies to market is – like, don't bet against the U.S. when it comes to that. Even if their technology is developed somewhere else, it'll be brought to market much quicker here than anywhere else, right? The third one was the tax and transfer systems. You know, how smooth are they, and so forth? And Europe actually had an advantage on that. So what we were trying to tell Europe was, don't be so scared about these technologies. You are actually pretty – you're actually well equipped, institutionally or administratively, to do it.

But if you sort of look at all of these things, you say, OK, who would you give the highest marks to, in all of this stuff? I'd give it to the U.S., especially now big money is going in, you know? With just a little bit of pump priming by the government, big money comes in. And then you have the business process innovation. These things take a long time to develop. And the U.S. already has them. Tax and transfer systems, the U.S. has a tolerance for a greater amount of social mobility, in a sense, I think. You know, and I think as long as it retains that, it'll actually have it. So if I had to bet on a thing, I would bet on the U.S.

Mr. Girishankar: Yeah. Interesting, interesting. Very interesting point. One more – two more quick hits. So with the rise of the AI revolution, the, the energy transition, obviously critical minerals have become the thing. They are an important topic, certainly a point of concern for people who are interested in economic security, particularly in the U.S. And so you see a number of countries that are focusing on this. There is the early discussions about the deal in the DRC and Rwanda. There's obviously the discussion around the deal in Ukraine. A lot of them focused on critical minerals. And there were some African heads of state at the White House recently. They also touched on this topic. So, great.

When I listen to this, I certainly see the economic security dimensions to it. I also see kind of a "Back to the Future" dimension to this. You know, the last 30-40 years there have been times when extractives have taken center stage in the development agenda. And there were some hard lessons learned from those experiences. In fact, this has more than a 200-year history in a lot of countries, but certainly in our lifetimes. How do we approach this now in a

way that does not repeat the mistakes of the past? And tell us what you think those mistakes may have been?

Dr. Gill: So, you know, on this one, you – I'm sure, Navin, you know a heck of a lot more than us. So our expertise in these kind of issues is really about looking at the outlook for commodities markets. So we have a team that actually – the same team that does the global economic prospects also does the commodity markets outlook. And one of the things we are trying to have them do is exactly try to answer the question that you're asking/ Not from the viewpoint of the U.S., necessarily, but from the viewpoint of emerging markets and emerging economies.

And so I don't think I'm ready to give you an answer about this just yet, but we know what the main problem is. You know, the main problem is that we are – we are worried that – I mean, we were worried back then because of things like because of the kind of minerals we needed for EVs, and solar panels, and, you know, those kind of things. And we were worried that a large part of those technologies were concentrated in one country or in one part of the world. Now you also have rare earths. And I think that there are countries that have invested in – they have invested in developing these resources. And they're the early developers. And as a result of it, they actually corner – they have a large part of the market.

But I think it goes back again to the thing that you mentioned, because they have invested in developing these resources. And there's no reason why the U.S. can't invest in developing those, whether they are in the DRC or whether they are at home. And it's really a technology issue. I think ultimately, just like we think that the problem of climate change is going to be solved by technology, I think that we think that the problem of rare earths, critical minerals, and so on will also be solved by technology. And then again, here I'm a big believer of the U.S. innovation system. Once you present the U.S. private sector a problem, whether it's flight or whether it's something else, I think that you get a solution.

Mr. Girishankar: I think that's fair. Let me just sort of probe you on this one. Because my sense is, for the United States and their allies, diversification is more important now than ever. You have a concentration of processing on a number of these critical minerals in the PRC. And so you don't have to go from 90 percent of processing in the PRC down to 10 percent. Even if you move down to 60 and 70 percent, there's a degree of diversification that is important. And so that's rocks in the ground and that's processing. And, you know, I want to just throw this at you and see what you say.

There's an experience – there's the experience of Chile. There's also the experience with, I believe, it's forestry in Norway, where these extractives – these extractive industries can also become a basis for productivity growth

in countries. They don't have to – they don't automatically lead to a resource curse. And so my question is, for sort of the laypeople like myself, what are the ingredients of making sure that those extractives – so now, critical minerals in Rwanda, for example, or DRC – become an engine for productivity growth? What would you advise them?

Dr. Gill: So, you know, I think – it's a very good question. So one of the things that we did was we've just finished a paper on Indonesia, because Indonesia wanted to develop its nickel – value-added in nickel, let's say, right. And the question was – and it's a very reasonable thing to do, saying: Why should we export ore, when we can actually develop that at home? Then you sort of say, oh, well, you need energy for that – do you have energy. Yeah, they can have energy as long as they use coal and that kind of thing.

But the main point is that you can't argue against keeping some of that value at home. But then the next question is why do you want to keep some of that value at home? Because it should lead to improved economic outcomes.

Once you start to sort of look at that a little bit more closely you say, OK, let me see. What I'm going to be doing is I'm going to make you this cheaper at home so I'm going to now take a look at all of the industries that use this in their production. So in this case it was steel, largely.

And what you find is that once you have cheaper nickel available or cheaper inputs available for these there are a lot of firms that would otherwise have gone out of business because the low value added firms now stick around. So the result – what you then do is that you take this good thing and you make it a bad thing by lowering productivity levels across a huge sector.

So my own sense of it is that's the modern resource curse. That's –

Mr. Girishankar: Fascinating. Wow.

Dr. Gill: That's the modern resource curse.

Now, of course, you have other countries where just these natural resources are so big and so on that they create what's called a voracity effect and so on, right? I mean, they weaken institutions. I don't think the resource curse is something that should worry Canada and the U.S. for the same reason as the resource curse was not an issue for a country like Norway because it had been –

Mr. Girishankar: Right. I'm really thinking about developing countries where we could be investors –

Dr. Gill: Absolutely.

Mr. Girishankar: So and I think of these things as hundred-year relationships, and you want those relationships to be robust and benefit the population and benefit both sides of the Atlantic, to put it that way.

Dr. Gill: So two observations on that.

If you look at this question about to what extent has Chinese investment helped or hurt countries in Africa –

Mr. Girishankar: Yes, that's a good question.

Dr. Gill: Good question. I think a very simple but not misleading answer is based on that analysis that I've seen if a country had strong institutions – good governance, basically – it gained a lot from this. If a country had weak governance it lost.

So then the question is for an institution like the World Bank and, like, what you just said, if you want a sustainable relationship that leads to mutual gains it can only happen if you also make sure that these countries develop their institutions.

Mr. Girishankar: That's a great point.

I'll tell you why I think this is a great point. I think that for the United States, as we think through what the future of foreign assistance looks like, let's not throw the baby out with the bathwater. There is a modicum level of investment in institutions that are needed so the ROI of those investments including private investments are meaningful and sustainable.

Dr. Gill: Amen. Amen is what I would say to that.

Mr. Girishankar: So great, great point.

OK. I'm going to bring it home. We started out with the sobering picture of where we are point in time and then you've taken us through and there are opportunities, and I think you've – like, I'm excited the more you talk about it.

Like, there are still possibilities and opportunities. I think – I believe in being a hyperrealist and so I was excited to read that next week, I believe, you have a conference, the Annual Bank Conference for Development Economics. Is that right?

Dr. Gill: That's exactly right.

Mr. Girishankar: ABCDE, for those who don't know, and what I found interesting is your focus is on economic reform in the age of populism. Fascinating.

Meaning, to put it in my words, what is the future of economic reform in a world where populism is on the rise in developed and developing markets, and maybe I would just sharpen this a little bit and ask you should we be moving towards development policy including by the bank and others that are robust to the political economy considerations of developed countries, particularly those that have been perceived losers from trade over the last several years?

Dr. Gill: You are absolutely right and I would encourage – so I would encourage you and everybody else to actually participate in this conference. You can do it virtually. You can come. We'd be happy to host you.

I think that the short answer is that – you know, the short answer to your last question is that there is no way that you can ignore political economy issues in the more advanced economies because they may be more advanced but they are much smaller, a fraction of the world economy, or they're not a dominant part of the world economy anymore. They share this roughly 50/50 with the others. So how can you – how can you ignore – all this?

But the other thing that you sort of see this, I mean, is if you really look – I mean, and I'm a firm believer of this – if you look at the period of prosperity that that world economy went through it was a period in which the American template was applied in a lot of countries – a reliance on markets, not just say OK, markets are sufficient – are both necessary and sufficient.

You say, no, no, no, you need these other institutions like, for example, mass education, which I think was also – I mean, it may not have been an American invention but it was definitely an American story, right? And a lot of these countries did all that stuff and as a result they prospered.

So when the U.S. model needs adjusting and so on it should adjust because then I have a feeling that that same template will be applied and if it – and if this happens you – all the countries that are low-income countries will become middle-income countries. Many middle-income countries will become high-income countries and it'll be a very different world. It'll be a much more prosperous world. It'll still be an American world.

Mr. Girishankar: Yeah. Amen.

So let me now bring this finally home. You have been a world banker I think a couple of times. You've been a professor, a scholar, a researcher. I've been a

big fan of what you've done over the years. If you look to the next generation of economists – you know, take it back 40 years or whenever when you started. If you look at the generation that's coming up now how has the field of economics changed? What are the things that you would point to as sort of future directions for the field that are exciting and important and, hopefully, influential for tomorrow's economists, tomorrow's – Indermits of tomorrow?

Dr. Gill: Yeah. So I think because of the way that I was trained – I was trained by people like Gary Becker and Bob Lucas and Sherman Rosen – I believe that you have to make economics work for the common good, you know.

I mean, if you look, for example, at the American model too it wasn't like market-based systems hadn't been tried earlier. I mean, they were all market-based systems in the medieval ages, et cetera, et cetera. But they were not applied for the common good.

So that's the point. I said believe in markets – that's one thing for sure – but make – find ways to sort of make them work for the common good and, you know, one of the things that you learn, of course, then is that a hugely important thing for this is competition.

But you can't leave competition just to capitalists, I mean, you know, because people who compete want to end competition. They don't want to prolong competition. So that's one thing. I think that this whole –

Mr. Girishankar: Oh, that's – say that again. That's really important. You can't leave competition just to capitalists?

Dr. Gill: Yes, because, I mean, folks who you make – folks who have to compete want to end competition. They don't want to prolong it, right?

Mr. Girishankar: (Laughs.) Yeah. Yeah. Yeah.

Dr. Gill: So somebody has to prolong competition. And I think that's the role of – that's a role of the state.

Mr. Girishankar: The state.

Dr. Gill: That's a huge thing.

Now, then if you sort of look at it you say, all right, let's go back and say what is it that – I think I would return to the fundamentals. I would sort of say you still need macro stability. OK. So I think that the world has to deal with the debt crisis, especially the debt crisis in poorer countries because the richer countries can – you know, they have the mechanisms to actually give people a second chance.

But I think the world has to come up with mechanisms to give poor countries a second chance, yes? And then, of course, I think trade – you know, trade has always been a great thing but it cannot be a trade which is immiserizing for one big swath of society, even if that swatch of society is in a very rich country and the rest of the country is really benefiting from it. I think that's what we've learned.

I don't see populism as a bad thing, by the way, just like elitism. You can't say elitism was a good thing and populism is a bad thing, you know? So I think in some sense this is a correction because I think the elites blew it. I mean – I mean, you could consider us part of the elites or what, but I think we missed these big risks. But we have a chance to fix it. And I don't know if I'll be able to do it in my time, but you are much younger. You should do it.

Mr. Girishankar: (Laughs.) Not that much. (Laughter.)

Dr. Gill: Yeah.

Mr. Girishankar: But I think you've laid out a wonderful vision for folks who are starting their careers as economists. It's given – you've laid out a purpose and I think, like, that's timeless and universal but I should say particularly urgent in the moment that we're in.

So with that, I really thank you for taking the time. You've been generous with your time. Such an interesting conversation.

Dr. Gill: Thank you, Navin. It's been a pleasure.

Mr. Girishankar: Thank you for joining this insightful conversation with Indermit Gill, World Bank chief economist and senior vice president. You can find this on YouTube or CSIS.org.

This is Navin Girishankar signing off. Thank you.

(Music plays.)

(END.)