Rapporteur's Report[1]

GREAT POWER RIVALRIES IN THE GLOBAL SOUTH: NAVIGATING FINANCIAL AND ECONOMIC SECURITY ISSUES IN A MULTI-POLAR WORLD

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During March 22-24, 2024, the Financial Services Volunteer Corps (FSVC) organized an international symposium in Istanbul, Turkey, funded by Carnegie Corporation of New York and Konrad-Adenauer-Stiftung (KAS). The symposium brought together 29 leading experts and practitioners in international finance and foreign policy from Africa, Asia, Europe, and North America to exchange ideas, break silos and forge connections. The overarching topic of discussion was how great power rivalries are impacting the Global South and the implications of these developments for the global financial system. Specific topics included the growing importance of Global South countries amidst increasingly competitive and divisive global power dynamics, current financial sector challenges, the strategic importance of critical minerals, the increased use of sanctions, and building resilience amid increasingly fractured global supply chains.

The 2024 symposium continued a series of conferences that FSVC has held over the past twenty-five years, with principal support from Carnegie Corporation of New York. This series creates a platform for experts from multiple fields and countries to share diverse perspectives on complex global challenges, particularly those relating to the global financial system, and to discuss multi-faceted policy recommendations to these international problems. A core concept underlying FSVC's symposia has been that the most intractable problems confronting the world today will require multilateral coordination among key countries, disciplines and industries if they are to be successfully addressed. These complex problems do not fit neatly into the silos of individual expertise, and thus demand broad-based collaboration and earnest communication among experts and policymakers alike.

[1] This Rapporteur's Report was prepared by Zoe Kassinis, Senior Program Officer at FSVC. The Principal Investigators for the symposium are Harry Harding and J. Andrew Spindler. Harry Harding is University Professor Emeritus, Professor Emeritus of Public Policy and a Faculty Senior Fellow at the Miller Center of Public Affairs at the University of Virginia; and Yushan Scholar and Adjunct Chair Professor at the College of Social Sciences of National Chengchi University in Taipei. J. Andrew Spindler is the President & CEO of FSVC. A list of participants in the symposium is provided in the attached annex.

FSVC is a not-for-profit organization whose mission is to help build sound financial sectors to support healthy market-oriented economies in developing and emerging market countries. Additional information about FSVC can be found at www.fsvc.org.

In 2024, there is widespread concern about the increasingly fragmented state of the international system, underscoring the importance of the discussion about if and how great powers and the Global South can cooperate to identify potential areas of mutual interest in tackling pressing issues.

Opening Remarks

It was noted that a key theme for this first symposium post-pandemic would be building back coordination among countries and disciplines in the face of widespread polarization, concern and pessimism about the state of the world, against a backdrop where so many things are going wrong in the international system all at once. The geopolitical and international financial system is becoming increasingly complicated. Uncertainty and unpredictability surround issues of economic and energy security, climate change and the evolution of international financial institutions and markets.

It was suggested that we stand fully at an inflection point in world history which, now, more than ever, necessitates reflection. Policies are predictions of courses of action—for policies to work, some conditions have to be met (and things have to go 'right'), but this is less often the case. Participants were encouraged, over the course of the symposium, to recognize the assumptions and conditions on which stakeholders are basing their actions and to take stock of what works and what has failed. Participants were also asked to challenge the conventional theories and assumptions that shape the way we think about current policymaking, and to try and criticize our assumptions to come up with better policy recommendations and responses.

Session I: Current State of the World – Various Perspectives from Advanced and Emerging Economies

The panel kicked off with a quote from the 1930s which ironically captures the essence of today's changing world. In 2024, the world is marked by a multitude of national and international tensions which are all simultaneously unravelling and "the crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear."[2] The overall discussion centered on challenges and key risks in the contemporary global landscape, as well as how to ensure that the Global South benefits from its growing importance amidst increasingly competitive and divisive power dynamics (i.e., figuring out how it can become a "race to the top, not a race to the bottom.") An overarching concern was that all key challenges facing the world in 2024 require concerted multilateral coordination, and there is a risk that current institutions are not up to the task.

Weak International Cooperation and Collapse of Rules-Based International Order: Cracks in the rules-based international order are emerging. International multilateral institutions have proven incapable of addressing international security challenges like preventing war (e.g., in Ukraine and Gaza) or effectively addressing climate change. It was argued that this has been unfolding for years; however, the international community's failure to stop Russia's invasion of Ukraine brought this into harsher

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[2] In this quote, Antonio Gramsci (1891-1937) is describing the crisis of liberalism in Europe, and the Italian state specifically, during the transition of world order in the 1920s and 1930s. A century later, the world is once again living an interregnum, poised between old powers and reluctant emergent ones.

focus. The war in Ukraine has also brought unprecedented uncertainty to the world order. Specifically, the future of U.S. global leadership and credibility has been called into question, as has E.U. unity and common objectives. Recent G20 and BRICS summits reflected the change in the world order and new alignments of geopolitical power. Illustratively, one participant noted that, for India, the recent G20 was critically important, and the country used it to bring to the forefront issues plaguing the Global South such as clean energy, debt restructuring and technology investment.

More broadly, a participant suggested that today, great and emerging powers' instincts are to compete rather than cooperate, as was illustrated by international responses to the COVID-19 pandemic and the 2008 financial crisis. The risks of impeded international cooperation are grave in light of increasingly worsening global problems like climate change, poverty and inequality, pandemics, the rise of technology like artificial intelligence (AI) and the threat of nuclear weapons. In particular, the panel raised concerns that the existential threat of nuclear weapons use is intensified by Russia's war in Ukraine. Major nuclear powers are modernizing their nuclear arsenals and, while no leader has expressed intent to use them, Putin is quoted as saying "all weapons are made to be used."

Moreover, AI will have global implications. While it could yield positive trends, like a new phase of global technologies (e.g., big data, security), it could also raise profound risks (e.g., loss of jobs due to automation, spread of disinformation). Participants agreed that these challenges will require multilateral coordination and international cooperation, but the world does not appear up to the task, and there is a risk that existing institutions will not be able to respond effectively.

<u>Arrested Economic Development</u>: For 2024, the World Bank forecasts 3% global GDP growth and specifically, 2% growth in the U.S., 1% in Europe, 4% in China and 6% in India. However, geopolitical tensions can impact growth.

Global economic recovery from the COVID-19 pandemic was uneven. Many nations have returned to normalcy (e.g., the U.S. has fully recovered); however, many major economies like Germany and the U.K. are slipping into a recession and China is in economic decline. Other economies are faced with the costs and trade-offs associated with the new and persistent problems of migration and climate change. It was noted that, after decades of globalization and a rise in global standards of living, the majority of the world's population is now faring worse, for example, in terms of education, health and security indicators.

<u>Demographic Issues:</u> Migration is a polarizing issue in the U.S. and European Union (EU). There is massive population growth across Africa and other emerging markets like India. However, even in fast-growing Global South economies, economic growth is still insufficient to create jobs for young people. In India, 6% growth has not created enough jobs and 24% of youth (under the age of 24) are unemployed. This runs the risk of creating mass civil unrest, radicalization and ultimately, a democratic disaster. The position of women in the Global South has also remained precarious. In India, women's workforce participation stands at approximately 30%, well below the global average.

<u>Geopolitical Tensions</u>: Arguably, both China and the U.S. are at risk of losing if their trade war is protracted. If the geopolitical conflicts in Ukraine, the Middle East and North Korea persist, they will

directly influence the global economic system. If any one conflict worsens, it runs the risk of further economic harm. Russia's war in Ukraine has caused severe economic challenges to the EU. Within the BRICS, some countries benefit from great power rivalries and competition. However, there is also a set of countries that has suffered, for example, through proxy wars or wars being exacerbated. A rising question among Global South countries has become how they can effectively insulate themselves from the fall-out of great power competition, but also try to benefit from it.

National Political Instability: Many African countries face high exposure to political risks, especially in the "coup belt" of Sub-Saharan Africa. In the U.S., political partisanship runs the risk of eroding the legitimacy of democratic processes and institutions. There is concern that the upcoming 2024 presidential election results will be contested, undermining the democratic process and raising questions about the legitimacy of U.S. foreign policy going forward. Participants voiced concerns about how dramatically different the stances of the two U.S. presidential candidates are, and how different the world will look next year depending on who is elected, in terms of U.S. relations with China, Russia, NATO, the Middle East and North Korea, and climate change, among other issues. Political polarization and extremist politics are also a reality across EU member states.

Perspectives and Key Issues from Different Countries and Regions: The overarching themes included: uncertainty is encouraging and accelerating the diversification of partnerships; there is a rising trend toward self-reliance; and, in forging new partnerships, it is important to understand the nuanced perspectives of individual countries in the Global South and their social, political, cultural and economic differences.

Africa: Across West Africa, a series of military juntas recently toppled democratically elected governments in countries like Burkina Faso, Guinea, Mali and Niger. Participants noted that many local populations supported the coups and there were few, if any, demonstrations asking for the return of democratic principles. This raised questions about the popularity and sustainability of democracy as a political system across the continent. There is also growing frustration among many Africans who believe that their countries' relationship with the West is unbalanced and founded on fundamentally unfair principles. For example, there are increasingly vocal critics of the West African CFA franc, arguing that it impedes countries' economic freedom as it is "controlled" by former colonizers. It was suggested that the African population is supportive of "fresh, non-traditional" partnerships. Specifically, in Africa, China is seen as an important infrastructure investment partner that delivers concrete, tangible results (e.g., physical infrastructure like roads and ports) which provide economic opportunities and direct benefits to the population. For Western partners to compete with China in the Global South, they have to help African partners see the relationship as "win-win." However, there are a lot of challenges associated with these investments, including endemic corruption.

In the Sahel strip, climate change has exacerbated suffering, including food and water insecurity and joblessness. There is the risk that this desperation can be exploited by terrorist organizations and used as a foothold to expand their influence in the region. The U.S. could strengthen its partnerships/influence with African countries by taking actions to mitigate and help local populations adapt to the effects of climate change.

North America (U.S.): Trust and confidence are critical in the U.S. economic system, but they are waning. This has been underscored by recent bank failures such as the collapse of Silicon Valley Bank (SVB) due to the loss of confidence of its depositors. The U.S. Department of the Treasury has taken far-reaching actions to safeguard trust in the system by, for example, guaranteeing deposits at SVB following its collapse. The debt issue is also becoming critical in the U.S. Over the last decade, the U.S. has almost doubled its outstanding debt. The federal budget deficit is projected to increase by 63% over the next ten years, from $1.6 trillion this year to $2.6 trillion in 2034. Spending on interest on U.S. debt is now the fastest growing part of the federal budget and in 2024, interest payments on debt are set to exceed U.S. defense spending.

Over the past 70 years, the U.S. has provided an umbrella for global trade and encouraged the formation of inter-connected global supply chains. The world relied on U.S. openness to free trade for the production and distribution of key products like fertilizer, electronics and chips. Now, as the U.S. seems to be abdicating this role, it runs the risk of making it harder for raw materials to travel. There are also broader geopolitical tensions challenging U.S. free trade such as recent Houthi attacks on cargo ships which necessitated expensive U.S. military intervention.

Participants agreed that the upcoming 2024 presidential elections should be considered a serious risk factor for the global economy, not just from the perspective of which candidate will win, but whether the win is accepted. There is concern that an unclear win could open the door for geopolitical actors to make disruptive moves and create serious risks.

EU: To effectively diversify its partnerships across the Global South, the EU will need to better understand its potential partners and how to find common ground. It was argued that the inner processes of the EU, namely, the different (sometimes competing) interests of individual member states may undermine its efforts to successfully develop trade relationships with countries in the Global South. One participant noted the EU's lack of common foreign economic policy and of one common institution with this mandate which make it nearly impossible to design cohesive plans.

While the EU is often neither fast nor decisive in its policymaking, it is working on expanding its partnerships. For example, the German Minister of Defense has travelled to countries in the Global South like India and Saudi Arabia to discuss the potential of arms exports. After the COVID-19 pandemic, the EU has worked on re-strengthening its partnerships with Japan and Australia, and there is also evidence of stronger interest from Malaysia, the Philippines and Thailand in partnerships with the EU.

Southeast Asia: To hedge against U.S.-China rivalry, the EU is emerging as a favored mediator for certain Association of Southeast Asian Nations (ASEAN) countries. As a partner, the EU offers economic potential, the strength of its security architecture, and its rules-based systems of law and order. However, there is hesitation among Southeast Asians about whether the EU will prove to be a reliable partner as it is often too involved with its inner problems and does not focus enough on Southeast Asia (a concern intensified following Russia's aggression against Ukraine); and, the EU's approach to issues like climate change and human rights is not in line with the national interest of many ASEAN countries. More broadly, ASEAN countries are diversifying their partnerships in the region, for example through free-trade agreements, including with Australia.

India: India is playing the middle ground between the great powers and aims to diversify and maximize its partnerships. Its overarching objectives are: security, gaining its "rightful place" on the world stage, self-reliance, and economic and technical transformation. It wants a multi-polar world, because in a multi-polar world, it has a position, while in a bi- or tri-polar world, it is left out. It considers itself a Global South country, but simultaneously, a "re-emerging" major power. India sees itself as "non-West, not anti-West" and has expressed concern about Russia's invasion of Ukraine, but has not blatantly condemned Russia. It is concerned about the economic impact of Russia's war, including the rising costs of food, fuel and fertilizers.

India is one of the fastest growing global economies (over 6% GDP growth projected in 2024). It aims to increase jobs in the manufacturing arena and to take advantage of Western de-risking from China to attract more foreign direct investment (FDI), especially in the technology and manufacturing sectors. In thinking about India's position in the US-China rivalry, it is important to focus on India's own rivalry with China. Following their border crisis, India increasingly sees China as an economic adversary and key competitor for influence over the Global South.

Finally, participants emphasized the danger of underestimating the rising prominence of other countries in the Global South. For example, companies de-risking from China are moving to Saudi Arabia and the United Arab Emirates, and Turkey is in a similar position to India, where they stand to benefit from the new prospective multi-polarity.

Session II: Current Global Financial Sector Challenges in Advanced and Emerging Economies

The session began with an overview of broad, key financial sector challenges in the Global South. First, the trend of loss of correspondent banking relationships has continued since 2016. As a result, it has become increasingly difficult for banks in the Global South to access U.S. dollars and U.S. dollar clearing, thereby undermining their access to the highly dollarized international financial system. One participant noted that there are a handful of countries in the Global South that control minerals critical to the "Green" transition and technology development that are now left with just one or two correspondent banking relationships with Western banks. If the relationships are terminated, these countries may shift to China and away from the West, with severe implications for important industries.

In addition, attempts to promulgate Western financial market standards (e.g., Basel Capital standards) across the Global South have put pressure on banks to adopt these strict standards, including on smaller banks for which the standards were not initially intended. Next, an important challenge plaguing countries in Africa is rising debt. In 2022, debt and interest payments around the world amounted to an unprecedented US $450 bn. In 2023 and 2024, this number is expected to rise by 40%. Finally, many Global South countries are "starved for capital," with government borrowing crowding out private lending to small and medium-sized enterprises that could serve as engines of economic growth and job creation.

The discussion then moved to an analysis of the economic situation of key global powers like China the U.S. and Russia, and of the Global South. Key themes that emerged across panelists' remarks included: the fundamental changes in global trading patterns, most notably the increased role of China; debt is plaguing countries across the West and the Global South; the "Green" transition and how to finance it/what materials will be needed is rising in importance; and, how crucial it is to consider the nuances of each country within the Global South.

China: China is expected to grow by 2.6-2.7% this year, which is lower than the Chinese Communist Party's target of 5%, which is a cause for concern. The Chinese economy is slowing down and is facing deflation. It aims to avoid the long-term recession affecting Japan and any financial crisis, but has not promoted big stimulus measures.

In 2024, China is by far the largest manufacturing power in the world, and it has largely succeeded in creating critical dependencies, including related to the rising "Green" transition. For example, 90% of the world's exports of solar panels come from China. One panelist noted that the "Black" transition (increased use of fossil fuels like oil and coal) was not dependent on one country (not even Saudi Arabia) so the world is entering unchartered territory that is very unsustainable.

One participant noted that, from China's perspective, the country is facing its biggest challenge since its economic reforms in 1978. This problem is rooted in mounting external pressure resulting from geopolitical competition from the U.S. In the past, China depended heavily on external demand and exports to the U.S. and other Western countries. Now, it is facing a paradigm shift: it is continuing to rely on Western demand but, at the same time, is responding to unprecedented domestic demand. In addition, to cope with pressure from the West, China is shifting its export destinations to the Global South. While demand from individual countries in the Global South is small compared to that of individual advanced Western economies, the aggregate value of demand from the Global South is very important.

The composition of China's exports has also changed. In the past, including as part of the Belt and Road Initiative (BRI), China focused on expensive infrastructure exports in the Global South. China no longer has the same appetite for these types of exports, however, and its government-led infrastructure investment is in decline. This is in part due to rising domestic debt and the associated increased budget deficit stemming from three years of its 'Zero COVID' policy. As China continues to use banks to implement state policy, there is a risk that loans for the BRI and the financing of state-owned enterprises may eventually impact consumers. The significance and prevalence of Chinese private enterprise in the Global South is rising, however. Within China, private enterprises are less welcomed and are pushed abroad, most notably, to Africa. As a result, there has been an increase in Chinese private sector-led investment in Africa, including in the mining and infrastructure development sectors. Finally, to tackle both its rivalry with the U.S. and fear of financial crisis, China's response has been industrial upgrading and shifting to a technology-driven economic development model.

U.S.: The U.S. is projected to grow by 2% this year. One participant noted that this constitutes very good performance as U.S. GDP represents approximately 15% of global GDP based on purchasing power parity (PPP). Overall, since the last financial crisis, the efficacy of oversight and regulation of banks in the U.S. has improved dramatically, except in isolated cases like the SVB failure. The U.S. labor market has proven very resilient despite the COVID-19 crisis. The country, however, is facing a profound debt burden that could become unsustainable if not carefully managed. However, another posited that modern economic theory suggests that budget deficits don't matter. The U.S. is also facing potential risk related to commercial real-estate vulnerabilities, but one participant suggested that these could remain crisis "episodes" rather than become full-fledged crises.

Russia: Patterns of Russian trade are changing. Russian trade with Turkey, the UAE and other Global South countries has increased. The performance of the Russian economy is very dependent on natural resources.

Global South: Many participants emphasized the importance of making observations country-specific and bank-specific to avoid reductive generalizations about a very heterogeneous group. Factors which influence the success of individual countries within the Global South are varied and different depending on the context. These include, for example, political and resource ownership structures, corruption levels and the degree to which their central bank is interested in meeting Western standards of know-your-customer (KYC) and anti-money laundering (AML) oversight.

The African economy is expected to grow at a rate of 3.4% this year; in 2024-2025, Africa will be the second fastest growing region in the world after Asia. One participant suggested that this is insufficient, and that the region cannot witness the huge, necessary development it needs with only 3.4% growth. Africa is also the most vulnerable region in the Global South to enormous geopolitical pressure. First, many African countries are "hostage" to spillover effects of the monetary policies of advanced economies set by the U.S. Federal Reserve and the European Central Bank (ECB) as many of their currencies have been adversely affected by the recent strength of the U.S. dollar and Euro. The majority of countries in Africa do not have strong crisis management policies and procedures, and this makes them extremely vulnerable to foreign exchange crises. They also have U.S. dollar or Euro-denominated debt which will become a seminal issue this year. There are huge volumes of 10-year debt bonds (over $200bn in debt owed across the African continent) set to mature in 2024 and many African countries will not be able to pay. China has major leverage across the African continent as it is a major financier of these indebted countries. One participant emphasized that the rates of these loans were very high initially and, when the debt is rolled over to future years, the conditions will worsen for African countries if they do not successfully re-negotiate the conditions.

<u>Policy Considerations</u>: Participants discussed possible policy considerations and potential solutions to the global financial challenges identified. One participant noted how there is a fundamental lack of preparedness for the next financial crisis. Notably, the overall "toolbox" of traditional fixes available to central banks is not as extensive as it was in past crises due to the broad use of quantitative easing. As it is unlikely that there will be a decrease in banks' quantitative easing portfolios, banks will be limited by huge balance sheets in future crises. The budgetary capacity of governments is further limited by high debt levels in many countries. As a result, the support mechanisms available during the COVID-19 pandemic, where large amounts of money were provided to firms and consumers (largely in the U.S. and EU) to avoid insolvency, will likely not be possible in the future as there is insufficient capital across economies. Another participant highlighted how, in the wake of the 2008 financial crisis, central banks took extensive measures to make their economies more resilient to future crises. This has proven to be a double-edged sword

as now economies would appear to be less sensitive to their own monetary policies, and it is harder to affect change.

Another participant urged policymakers to bear in mind that geopolitical fragmentation and competing power dynamics will shape policymaking of Global South countries. It should not be perceived as the ideological power dynamics of the Cold War—there are no ideologies in today's fragmented world, decision-making is based on business interests and countries in the Global South are seeking the best opportunities. For example, they are refining Russian oil and selling Indian diesel to Europe.

When thinking about recommendations, one participant emphasized the reality of limited resources. Therefore, it is important to be selective and targeted. One participant suggested that issues affecting the Global South should become more prominent on the agendas of official international forums such as the Financial Stability Board and Basel Supervisors Committee. Furthermore, debt restructuring and debt relief are needed for many countries, and a participant suggested the creation of a pan-African debt re-negotiation platform to give them collective leverage to establish more favorable standard terms and conditions. This will require closer coordination of relevant authorities (including central banks), not just regionally but globally. It was also suggested that there should be more inclusion of (and cooperation with) the private sector in the building of market infrastructure. Regulators and governments also need to look closer at the shadow banking sector, address concentration and sovereign risks, and review liquidity and capital buffers ahead of a future crisis. Central banks should work with the private sector to digitize KYC systems and identify more efficient strategies to facilitate cross-border payments.

Session III: Building Supply Chain Resilience Amid Persistent Great Power Competition, Including Over Critical Minerals

In stark contrast to the early 2000s where great powers were committed to integrating and globalizing supply chains, global supply chains are now fracturing. The U.S. government is vocal about aspiring to de-couple and build its own parallel supply chains. Overall, however, participants noted that this is not realistic. Supply chains, including in key industries like critical minerals and semi-conductors, are interdependent and deeply integrated. Unlike the U.S.-Russia competition during the Cold War, economic disentanglement of the U.S. from China is impossible.

Mining Industry and Critical Minerals Supply Chains: The African continent is the stage for great power competition in mining. One participant argued that there is "no Global South" in the mining sector, no 'one size fits all' as not all countries have the same and equally important geological endowments, and the investment climate varies by country.

Overall, mining operations often exist in high-risk, developing countries. Chinese miners are outcompeting Western miners in Africa. At a practical level, a participant shared that, from mapping the Democratic Republic of the Congo (DRC)'s cobalt supply chain from mine to market, it becomes clear that it is impossible for the U.S., Japan and Europe to build a parallel critical mineral supply chain as all key phases/components are controlled by China. There are many comparative advantages of Chinese mining companies, and more broadly of the state-driven business model compared to the financial market-driven model. First, China had the first-mover advantage in many African contexts. For example, in the DRC, China had a 15-year head start on U.S. companies and its control of a single mine alone accounts for 12% of the world's cobalt supply. Second, Chinese mining companies have a higher risk tolerance than American companies. Chinese miners are state-backed, with access to a huge amount of capital from state-owned banks and are insured by state-owned risk insurance companies. Western capital markets avoid risky jurisdictions, and this makes it hard for American companies to raise funds for the development of any mining sector. One participant noted that China's risk appetite is waning, however, due to the persistence of intractable challenges in Africa (e.g., kidnapping, corruption).

Further competitive advantages include the fact that there is total alignment between the corporate sector (both private and public) and the government in China, whereas there is often no alignment between the public and private sectors in the West. Furthermore, China has a longer-term outlook for mining, compared to the West's very short-term, profit-driven approach. For example, cobalt prices in 2024 are 80% lower than in the previous year. From a Western profit-driven perspective, it is not worth investing in cobalt today. However, China considers cobalt to be critical to national security and is playing the long-game, looking at the 10- to 20-year potential of minerals like cobalt. Overall, the issue of low mineral prices is undermining Western influence in mines in Africa. In addition to cobalt, nickel and lithium prices have also decreased by 80% compared to last year as a result of the slowdown in the electric vehicle (EV) markets across the world. This has led to a huge oversupply of these minerals. Chinese mining companies in places like the DRC are acting counter to market interests, flooding the market with these minerals, putting further downward pressure on their prices. China has taken advantage of these low prices to stock up their strategic reserves of these critical minerals (an area where the U.S. is lagging far behind), and to keep competitors out.

A participant noted that U.S. legislation that aims to create parallel, U.S.-controlled critical mineral supply chains is often fundamentally flawed. For example, the Inflation Reduction Act (IRA) has done damage to countries in the Global South like Indonesia where it is impossible to separate Chinese companies from the nickel supply chain as they are so deeply involved in all aspects of mining, smelting and selling. It is possible that this type of legislation may deepen the supply chain with Chinese companies as countries like Indonesia cannot afford to set up parallel supply chains insulated from China.

In discussions about extractive industry supply chains and de-coupling from China, it is critical to keep in mind the processing half of the supply chain. By 2025, China is expected to refine 90% of all critical minerals. China dominates this half of the supply chain, and it is impossible for the U.S. to develop processing centers on the scale needed to compete with Chinese processing plants. Chinese processing plants are massively subsidized and emit huge amounts of pollution. The cost of labor in China is also much lower than in the U.S., though wages are rising.

Semiconductor Industry: Semiconductors are a critical component of electronic devices and a pre-requisite to advances in computing, clean energy, military systems, healthcare, communications and countless other sectors. Semiconductors have risen to the center of the debate about supply chain resilience. Taiwan dominates the semiconductor supply chain and 92% of all semiconductors are made on the island. Taiwan is strategically positioned to continue to dominate this industry: they have a 40-year head start on other movers, the physical infrastructure (foundry, equipment) and the strategic alliances with other countries for necessary inputs (e.g., with the U.S. on foundational research, with Japan for chemical raw materials). The COVID-19 pandemic underscored the world's over-dependence on Taiwan for these essential components and its vulnerability to disruptions. The West is concerned that these essential materials are concentrated in "China's backyard" given intensifying geopolitical instability, and Taiwan is navigating the challenges posed by the strategic competition between the U.S. and China. Despite U.S. efforts to on-shore semiconductor production through the CHIPS and Science Act, doing so may prove too expensive and futile. U.S.-made chips would also be significantly more expensive. The U.S. does have the lead in terms of a highly educated workforce and foundational research in this industry, but the U.S. would have to invest enormous resources. China also cannot catch up despite massive government investment as the technological know-how and fundamental patents for this technology are controlled entirely by the West. Currently, China is stuck producing lower-end chips.

Rather than focusing on breaking and on-shoring the whole supply chain, which participants broadly believed is impossible, one participant suggested that the U.S. focus on preventing leakages of advanced process technologies to China. This will become increasingly important in the next stage of chip development, including for AI and advanced chips. However, if the U.S. blocks China's lower-end chips or access to technology, China has said it will retaliate through other important supply chains they control (e.g., cobalt and other critical minerals). This retaliation would have severe consequences on industries such as the automotive industry. Another participant noted that an advantage of the Chinese political system is that it can make strategic decisions more rapidly and efficiently than the U.S. can.

It was suggested that, for the U.S. to retain technological supremacy over China in the semiconductor sector, it must strengthen cooperation with its partners, Taiwan and Japan. The current U.S. lack of coordination with international stakeholders is driving them closer to China, on whom their growth largely depends. Countries in the Global South are also increasingly linked to the semiconductor industry and want to play a part in this supply chain. For example, in Vietnam, semiconductor testing and packaging are growing, and, in India, semiconductor hardware design is ramping up. This raises questions about how the U.S. should engage its partners more broadly in the Global South on the issue of semiconductors.

Emerging challenges like AI and climate change will force the international community to grapple with questions about cooperation versus competition on existing and future supply chains. In terms of recommendations about how to secure supply chains, participants suggested developing regional blocs where there are common values. It was flagged that, for the U.S. to participate, it needs to ramp up exchange and coordination with its partners, who are becoming increasingly skeptical of U.S. leadership. For the U.S. to enhance its extractive industry footprint in Africa in particular, it was suggested that the U.S. government and private mining companies coordinate better and pool their resources in this effort; otherwise, China will continue to dominate the sector. Another suggestion was that, given the interdependence of the U.S. and China, it is in the best interest of the U.S. to avoid pushing China so far that it would consider starting a catastrophic war.

Session IV: The Use of Economic Tools in Foreign Policy: Intended and Unintended Consequences

The discussion about economic tools, such as public debt, tariffs, sanctions and new financial technologies, centered around two key questions. First, to what extent can economic tools be "weaponized" in a context where great powers are deeply connected? Many participants agreed that economic interdependence disincentivizes the use of tools like sanctions. Second, what are the unintended and unexpected consequences of the use of economic tools, and who are the winners and losers in the "weaponization" of economic tools? All participants agreed that the "winners" and "losers" are not always those intended.

Public Debt: China has become the largest bilateral debt creditor in the world over the past 20 years. Many countries in the Global South face the risk of debt distress. In Africa, in particular, there is concern that many countries will default on their debt. Debt relief is needed. However, there is no international institution that includes all major creditors (public and private) to work on restructuring debt transparently and holistically. It is a fundamental problem that China, the main player in current debt re-negotiations, is not a member of the 'Paris Club,' an international group of major creditor countries that aims to provide a sustainable way to restructure sovereign debt. China is reluctant to participate in international coalitions for debt restructuring as it prefers to renegotiate on a bilateral basis to maximize its financial and political returns. This is not in the interest of debtors across the Global South or the U.S. who will continue to lose influence if China's position is strengthened. Another participant suggested that, going forward, the international community should develop transparent and sustainable debt management oversight, solving problems as they arise rather than waiting until they become so acute that countries need to fully restructure their debt.

Sanctions: Participants agreed that the main reason why sanctions are reasonably effective is because many countries have implemented them together (e.g., U.S., EU and U.K.). The global dominance of the U.S. dollar also gives more 'teeth' to sanctions. While their overuse or misuse may negatively impact international willingness to hold or use the U.S. dollar, alternative financial market infrastructures (e.g., Chinese renminbi, digital assets) are currently less developed and reliable. For example, 20-40% of financial transactions in renminbi are exposed to settlement risk. The U.S. dollar is therefore likely to continue to be dominant. The euro, however, suffered in the lead-up to Russia's invasion of Ukraine in 2022 as the majority of Russian trade was intermediated in euro (not U.S. dollars) and the vast majority of the US $300 bn in Russian central bank assets seized is in euros (only US $8 bn is in U.S. dollars).

To be effective, sanctions need to "hurt them more than they hurt us," but participants agreed that this has not necessarily been the case when considering Western sanctions on Russia. Participants disagreed on the extent to which these economic sanctions have been effective. To assess their effectiveness, it is important to define the goals of the sanctions. The sanctions have been moderately successful if judged against the narrow and modest goals of: 1) making it harder for Russia to implement its war by restricting its access to key components (e.g., chemicals, military equipment); and 2) reducing (but not cutting off) Russian natural resource revenues. As already noted, US $300 bn in Russian central bank assets have been blocked around the world, and Russia is losing 10-15% of its yearly budget. From the oil price cap, Russia has lost US $30-50 bn in earnings, the equivalent of two to three months of production. To avoid sanctions, Russia has also had to take on additional costs, for example, building up its fleet of 1,000 oil tankers which cost US $50 bn. This money was not spent on military objectives.

In stark contrast, many participants voiced concern that sanctions have primarily failed as they have not changed Putin's behavior nor ended the war. At both the micro- and macro-economic levels, the Russian economy is succeeding. Specifically, the Russian economy as a whole is growing. One participant commented that some of the sanctions requirements were not calibrated correctly. Notably, the price cap established on Russian oil (US $60 per barrel) was higher than the floor price used by the Russian government in the development of its budget (US $42 per barrel). This effectively raised the ceiling of the Russian budget. In addition, one participant suggested that Russia was ready and had built a "financial fortress" during the five years leading up to the war, which has helped largely insulate it from sanctions. Some participants noted, however, that the sanctions were designed to create more hardship for Russia than before (which is the case) and may reduce Russia's ability to conduct the war in the long run. Many participants then raised the question of when do you "un-sanction" or will sanctions be kept forever? Participants broadly agreed that it is problematic to lack a plan or strategy to phase out sanctions.

The interconnectedness of the global financial system arguably limited the impact of Western sanctions on Russia. Russia's global influence over the natural resource sector (mainly over oil) held the U.S., EU and U.K. back from taking more dramatic action on the price of oil out of concern about the global price of oil. Moreover, no dual-use items (e.g., semiconductors) were sanctioned, even though this could have had a more consequential effect on Russia's war effort, as it could have hurt U.S. industries. Participants generally agreed that, given the EU's strong economic ties to Russia, it became the major, unintended, loser of the current sanctions regime. The European economy is suffering due to the very high cost of energy. Another key challenge to the effectiveness of sanctions is that certain sanctions designations are very complex and their implications not well thought out. This creates inconsistencies and a credibility issue. Finally, the existence of alternative financial channels (e.g., use of the renminbi for cross-border payments) has undermined the effectiveness of sanctions by not fully preventing Russian cross-border trade and transactions with the rest of the world.

Sanctions have encouraged great powers to engage more with the Global South, notably Central Asian countries historically part of Russia's sphere of influence. However, the positions taken by the U.S. and Russia in engaging the Global South have been starkly different. Western countries tend to threaten that countries must apply sanctions or face punishment. In contrast, the Russian approach is often more pragmatic and seen as a win for the Global South countries (e.g., offering direct benefits like cheaper oil). Many participants posited that Western countries may need to consider using carrots (not just sticks) in their engagement with Global South countries on sanctions issues.

In a similar vein, participants raised the idea that public communication about the aim of sanctions was not handled successfully. Many Ukrainians thought that sanctions would stop Putin and end the war. From the Global South's perspective, many countries believed that Western sanctions were to blame for their food, fuel and fertilizer challenges, and this built up resentment. Russia amplified this message. Partly a result of mismanaged communications, most of the Global South does not appear to support sanctions.

Western sanctions are affecting Russia's relationships with China and India. One participant noted that very few Chinese companies and individuals are on the U.S. Treasury's Specially Designated Nationals and Blocked Persons (SDN) list. For the most part, Chinese firms have shied away from blatantly violating Western sanctions against Russia as they do not want to jeopardize their position. They have also not been sending as many weapons as they could to support Russia's war. One participant suggested that the major winner of the West's sanctions regime is China as sanctions have pushed Russia and other countries from the Global South closer to China. India has strong ties to the West and does not want to risk violating sanctions but it has not openly supported the sanctions. Russia-India trade was increasing in the lead-up to the war in Ukraine, but India has faced challenges in paying Russia for its imports of oil and weapons as they do not want to violate sanctions. As a result, it is expected that Russia will stop providing goods and this will slow down any economic ties in the long run.

Participants also discussed what China is learning from the ongoing sanctions and what effect, if any, they are having on Chinese policymakers' plans on how to handle future geopolitical tensions. Many participants agreed that the same sanctions used against Russia could not be used against China as China is a much bigger player with more interconnectedness and synergies across the world. It was suggested that China may view Western sanctions as not working, and that this may embolden (rather than deter) their future aggression. China is also learning effective countermeasures and how to insulate its companies. However, this will be difficult in practice given Chinese companies' general exposure globally. Western sanctions on Russia have also had the unintended consequence of ramping up the building of the renminbi financial market infrastructure and strengthening its ability to compete with Western payment systems. However, the Chinese Cross-Border Interbank Payment System (CIPS) is still very reliant on the SWIFT payments system.

Two years into these sanctions, the focus is now on the effective enforcement of existing sanctions rather than adding new designations, the use of "smart" (i.e., targeted, sectoral) sanctions, and increased use of "secondary sanctions" (i.e., sanctions that will restrict third parties from trading with Russian entities, even if these third parties are not American citizens or based in the U.S.). However, extraterritorial sanctions are illegal under international law unless passed by the United Nations Security Council. Therefore, their use may raise questions about the legitimacy of U.S. actions at the global level.

<u>New Financial Technologies, Including Digital Assets</u>: China is the furthest along in developing and rolling out a central bank digital currency (CBDC). But there are many questions surrounding new digital assets, including whether they are for domestic use to promote financial inclusion or if they can be used internationally as an alternative to the U.S. dollar. One participant suggested that CBDCs are dismissed in Washington, D.C., as it is not clear what problem they are solving: central bank liabilities, and settlement and clearing mechanisms, are already digitized. It was suggested that the U.S. Federal Reserve would be the last mover, to learn the lessons from other countries' experiences. While there is need to lower the cost and increase the speed of cross-border transactions, from an American perspective, it is not clear that CBDCs are the way to do so.

Participants were optimistic that new financial technologies have the potential to improve payment rails across the Global South and that they can help address the loss of correspondent banking relationships. It is not clear, however, what these new technologies will be and how countries will handle privacy concerns surrounding new digital technologies.

Session V: The Current State of Relations Between the Great Powers and the Global South, and Potential Opportunities

Overall, participants noted that for great powers to be successful in courting countries in the Global South, they need to use "carrots, not sticks." A key theme was that countries in the Global South are increasingly adopting the practical, pragmatic approach of looking for the best deal offered by great powers (i.e., the strategy of interest-driven "active non-alignment"), rather than considering ideological arguments for alignment. They emphasized that the U.S. has broadly lost credibility as a partner to the Global South, while China has gained prominence as a reliable trade and infrastructure investment partner.

Participants also debated the usefulness and value of the concept and term "Global South." Many participants argued that the term has a long history as an economic and geopolitical concept, used to describe a set of heterogeneous countries around the world that represent the global majority and that are often left out of great power politics. It is meant to be a frame of analysis through which the international community can consider the grievances of the majority. Practically, as a bloc, the Global South has the potential to strengthen the collective bargaining and the agency of these countries to exercise their interest at the global level. One participant rejected the term, suggesting that it is reductive, homogenizing vast parts of the world that have profound differences. Another participant suggested that it may be constructive to shift the conversation to a discussion of "north versus south" to better capture commonalities, rather than "west versus south" in global politics.

Alliances among Global South countries are expanding (e.g., the potential expansion of BRICS). The building of stronger south-south coalitions could raise their areas of concern to prominence and add weight to their negotiations with Western powers. For example, it was suggested that Argentina, Bolivia and Chile in the "Lithium Triangle" could strengthen their negotiating power by coordinating their policies toward the trade of lithium. There are also "new players" working to build partnerships with countries in the Global South. For example, the UAE is the fourth largest investor in Africa and has recently committed to investing in the DRC's critical mineral sector. Participants suggested that, beyond strong Global South countries banding together, they should also consider developing issue-based coalitions to advance their interests on the global stage. Some participants countered that this may work for issues like climate change where there are common interests, but it may not be as effective for critical mineral mining where countries have conflicting interests. Moreover, there was concern that the Global South as a group is too diverse in terms of economies, population and natural resources. For example, India and China are part of the Global South when they want to be, but are also investors, trading partners and extractors with different power dynamics than smaller countries. This is an important factor when considering sub-sets of countries coming together to create solutions. For example, it was suggested that it may not be in the interest of other countries in the Global South (except China and India) to expand the BRICS as this may consolidate the power of China and India rather than benefit the whole range of Global South countries. There is also the risk that conflicting ideologies may be divisive within such a big group of diverse countries.

Participants also discussed the end of unipolar U.S. influence over the international system. Many argued that, while the U.S. is still dominant militarily, this is no longer the most important dimension to global influence. The U.S. has made critical errors in its approach to the Global South (e.g., during the war on terror and currently in its imposition of unilateral, far-reaching sanctions) and these have diminished its credibility among Global South countries. An alliance with the U.S. is often seen as being conditional and dependent on the adoption of an ideology of values (e.g., human rights, democracy) even if this does not 'fit' the local context. Participants argued that, in many countries in the Global South, Western values are less popular than ever before. There is increased doubt that democracy brings prosperity and, for many countries in the Global South, "democracy" is a long-term abstract goal when many struggle with immediate and pressing concerns such as poverty and security. They are also witnessing a "crisis of democracy" in the West, including the rise of populism and the far right. In addition, the U.S. seems to have reversed course with regard to open trade, to the detriment of many countries in the Global South, retreating from trade agreements and weakening international institutions like the World Trade Organization (WTO) by blocking the appellate process.

In contrast, participants noted that Global South countries increasingly see China as more open than the U.S. to economic partnership, including trade. China is the top exporter to many regions of the Global South, including Africa and Latin America. China also invests heavily in the Global South, and this has had tangible benefits for these regions. For example, in 2008-2009, despite the financial crisis in North America, no Latin American bank collapsed as Chinese investment was very strong during that period. These regions have also benefited from Chinese-funded infrastructure development that U.S. companies were often unwilling to fund. One participant noted that the issue of scale matters for U.S. investment and that U.S. investors are not interested in funding smaller infrastructure development projects. It was raised that countries in the Global South often feel caught in the middle of U.S.-China tensions on issues such as infrastructure. For example, major infrastructure projects led by Chinese companies that could have benefited local communities in Latin America were cancelled (e.g., fiberoptic cables, bridges) as the U.S. disapproved. Some participants suggested that, while Chinese investment often has downsides, it is better than no investment, particularly in the area of infrastructure development.

In the Global South, the pragmatic, business-oriented "active non-alignment" strategy has risen to prominence as a solution to overcoming the great power struggle and being forced to choose between Washington and Beijing. "Active non-alignment" is predicated on the idea that Global South countries should work with all powers to try and get the best deal out of all of them. There is evidence that non-alignment works. ASEAN (encompassing 10 countries and 650 million people) has managed to position itself effectively on the diplomatic stage, in a way that Latin America and Africa have not. A signature feature of ASEAN foreign policy is non-alignment and strategically managing its relationship with both China and the U.S.

Participants suggested that the way forward for great powers in the Global South is to use "carrots," like infrastructure development and open trade. This would help the West compete more effectively in the Global South against China, compared to its current policy of "sticks" (e.g., threat of sanctions). To address its current reputation as an "unreliable" partner, the U.S. has to deliver on projects promised and use the private sector as "ambassadors" of the U.S. Finally, participants encouraged the U.S. to rethink its preaching to Global South countries about "values."

Technical Presentations

The 2024 symposium included three technical presentations to provide participants with a deep dive into the following key topics relevant to the theme.

BRI: From an Economic to a Political Rationale: Since its launch in 2013, China's BRI has helped deepen China's relationships with countries in the Global South. The number of countries in the BRI ballooned from 14 in 2014 to 152 in 2023, but Western countries have shied away from it. Notably, Italy exited the BRI in 2023. In 2013, the aims of the BRI were economic, and included: 1) foster trade with a range of countries to reduce dependence on the West; 2) reduce China's growing excess capacity through exports; 3) invest in manufacturing sites to benefit from specific locations; 4) create institutions to support the BRI (e.g., Asian Infrastructure Investment Bank); and 5) develop common, China-controlled standards in digital connectivity.

China's economic goals from the BRI have evolved since the program's launch. As the U.S. moved from engagement with China to competition, China's BRI projects became more geopolitical and security oriented. China adopted the position of "champion of the Global South" and stopped targeting Western countries. While overall lending and investment in BRI countries have decreased in recent years due to China's weaker economic situation, China has continued investing in strategic projects (e.g., dual-use infrastructure like ports). China has also expanded the international use of the renminbi and its new CIPS payment infrastructure to reduce exposure to Western sanctions.

Energy is a key sector in BRI projects. In the early days of the BRI, China focused on fossil fuels in Russia and the Middle East but, over time, China saw economic and political benefits in building ties with a wider range of natural-gas and crude-oil providers (e.g., Angola, Brazil). More recently, China has increased focus on "Green" energy, with the value of overseas Chinese construction contracts for alternative energy projects (e.g., solar and wind farms) doubling in 2017 and increasing ever since.

Today, the nature of Chinese engagement of the Global South via the BRI has changed. There is a shift from hard infrastructure development to technology, communications and pharmaceuticals. China envisions building an "Information Silk Road" that includes the construction of cross-border optical cables, transcontinental submarine cables and improved satellite communications. In 2023, China invested over US $14.3 bn in BRI countries on batteries, car parts, EV manufacturing and telecommunications. China's new "big three" (EV, solar and battery) objectives indicate more focus on critical minerals mining and technology-related investments going forward. One participant noted that Chinese subsidies to BRI industries prevent Global South countries, for example in Africa, from "moving up the value chain," including in critical minerals mining.

Overall, China is enhancing its global power through the BRI, and China's BRI-related investments in crucial sectors like energy and technology may, in the long-term, help China outcompete the U.S.

and other rivals in these sectors. The BRI is also helping China intensify BRI countries' economic dependencies and enhance its overseas military capabilities through dual-use infrastructure. Participants debated the risks and benefits of Chinese investments in the Global South, and suggested that their effects may largely depend on the capacity and governance of the governments in the Global South in their interaction with Chinese investors.

2024 U.S. Presidential Elections: In November 2024, U.S. voters will decide on the country's next president, all seats in the House of Representatives and one third of the seats in the Senate. Everything is very closely divided. In the past two elections, Donald Trump's percentage of the popular vote stagnated at 46% even though he dominates the news. This indicates that, despite his fame, he has not been effective in attracting new voters. However, several states are contentious and there are varied paths to victory for each party. Furthermore, the 2016 presidential election illustrated that a front-runner candidate can lose the elections by not targeting the right base.

In the Senate, the six closest races are in Arizona, Michigan, Montana, Ohio, Pennsylvania and West Virginia. The Democrats have a structural problem this year, as these six most competitive seats in the Senate are currently held by Democrats. In the lead-up to the election, the Democrats have 51 seats in the Senate, so are at risk of losing their majority. In the House, Republicans are defending a slim majority, and they are also "bleeding members" (e.g., recent expulsion of Representative Santos and redistricting following the latest census). Four Republican seats could now go to the Democrats due to redistricting. Of the 435 seats in the House, only 22 seats are considered competitive, as the winners of the remaining seats can be predicted based on historical patterns.

For the presidential race, the three most important states in the electoral college are Michigan, Pennsylvania and Wisconsin. For a presidential candidate to win the election, they must take two or three of these states. Trump "overperformed" in these states in 2016, even though structurally these states were more Democratic than Republican, by positioning himself as the "fighter for the forgotten middle class" (e.g., on issues like restricting trade, building a wall to restrict immigration). In 2020, Biden was successful in speaking to the middle class with his tactical messaging of "build back better." The task for Biden's re-election campaign in 2024 is to look at how to target the voters who voted for Trump in 2016, but usually voted Democrat, and think about how to keep this "forgotten middle class" engaged. Nevada will also be a key state in the upcoming election. The first path to victory for the Democrats includes winning Michigan, Nevada, Pennsylvania and Wisconsin. From an analytical perspective, Republicans will face greater challenges flipping these states that voted Democrat back in 2020.

Important issues to consider include Trump facing a potential felony conviction, which may negatively impact his popular support, particularly among independent voters. Further, the Trump campaign may run out of money due to his legal bills. There is also concern that both candidates are old, but neither party is likely to replace their candidate as it would be hard to predict how voters would respond to them. In terms of issues, important wedge issues to watch in the upcoming election are abortion and immigration. Voter turnout may be another determining factor. Biden obtained 12 million more votes in 2020 than Hillary Clinton did in 2016; however, the binary choice may dissuade voters who do not like either option. A third-party candidate could also be a key factor in the elections. Robert F. Kennedy has positioned himself as the "fighter for the forgotten middle class" and was polling at 20%. He would first, however, need to qualify for the ballot in each state as an independent, which is labor-intensive and not guaranteed.

Turkey's Position in the Global Ecosystem and Economic Trends in Central Asia and the Caucasus: In the global ecosystem, Turkey is a "middle power country aspiring for a greater and more autonomous role in global politics, with an imperial heritage which complicates its power." Turkey's geostrategic position is unique, and simultaneously provides it immense opportunities and intractable challenges. It terms of geography, Turkey is strategically located at a crossroads and has the potential to act as a conduit between Europe, Asia, Africa and the Middle East. As such, it has been an important partner to the U.S. and EU both during and following the collapse of the Soviet Union. Its physical location also offers it a natural supply chain advantage. At a political level, Turkey has diverse relationships and group memberships. Turkey is a member of notable Western institutions (like NATO and the Council of Europe), but also enjoys good relations with Russia and culturally identifies as a Muslim state so is a part of the broader coalition of Islamic countries. Turkey is striving for EU membership, and Turkey-EU relations have developed in recent years on topics like migration and engagement of Central Asia. Under President Erdogan, the country is embracing its "middle" status, adopting an opportunistic, pragmatic approach to managing global and regional power dynamics.

The Turkish economy is US $1 trillion in size and brimming with potential. It has strong manufacturing capabilities, is heavily diversified, and boasts highly developed industrial infrastructure. The U.S. has become Turkey's second top export destination. During and after the COVID-19 pandemic, there was a window of opportunity for countries like Turkey to seize the trend of near-shoring and front-shoring, and attract investments previously concentrated in China. While Turkey seized part of this business, it missed an even bigger part. For the EU, and Germany in particular, Turkey has the potential to be a "supply chain bastion," providing market access to the South Caucasus, and sustainable energy and connectivity in Central Asia. However, the Turkish economy is currently facing challenges such as high inflation, a balance of payments deficit, concerns about sanctions compliance and ineffective AML systems.

In the realm of great power politics, Turkey is striving to establish itself as a regional leader. Its primary security concerns emanate from its own East and South. It follows a "neighbor policy" whereby it has developed strong economic, political and security ties with its Caucasus neighbors like Georgia and Azerbaijan. Azerbaijan has been the largest source of FDI into Turkey for the last five years. Turkey and Russia are regional "strategic competitors" who selectively cooperate, and Turkey's newfound influence over Russia's "backyard" has further strained Turkey-Russia relations. Turkey has also benefited from the war in Ukraine and Russia's alienation by the Western financial system as many multinationals that had been in Russia have since moved to Turkey.

Final Session: Summary Observations and Discussion of Practical Policy Recommendations

The discussions made clear that the world is at an inflection point. The pace of change in economics, politics and technology has grown much faster in recent years, and the issues the world faces are increasingly complex. To respond to these emerging complexities, the value of breaking down silos and engaging perspectives from multiple areas of expertise is now greater than ever.

The rise of economic closeness and the trend of "securitization of everything" make countries compete with one another, and may create many losers both among great powers and the Global South. The world also is more fragmented and polarized than ever before. The wars in Ukraine and Gaza, and humanitarian crises in places like Sudan and Haiti, underscore that there are many countries suffering. Furthermore, there is a global rise in populism and autocracy, and this raises questions about the future of international cooperation, including to tackle new challenges such as AI, which is currently insufficiently governed. The U.S. domestic political context also is unpredictable, and this may dramatically impact U.S. foreign policy at a time when the U.S. is already seen as an increasingly unreliable partner by the Global South and allies like the EU.

<u>U.S. – Global South Cooperation</u>: To restore its reputation as a "reliable partner," the U.S. should try to mitigate the unintended consequences of its policymaking (e.g., effects of sanctions, fracturing supply chains). It must also do a better job of communicating its objectives (e.g., of its sanctions) and delivering on its promises (e.g., infrastructure projects). In addition, the U.S. should return to its legacy of economic openness as political signals toward trade restrictions have the potential to harm the Global South. Furthermore, there is a demand from the Global South to be heard. The U.S. should respect that everyone has "values" even if these do not match those of the U.S.

<u>U.S. – China Cooperation</u>: The U.S. and Chinese economies are very co-dependent, and many participants noted that it is unrealistic for the West to try to decouple its critical supply chains from China (e.g., critical minerals, semiconductors). The question was raised of whether converging goals, such as engagement in the Global South or combating climate change, could create common ground and bring the U.S. and China together. The two countries must engage and effectively communicate with one another as the rest of the world has too much to lose if they do not.

<u>China – Global South Cooperation</u>: To an extent, Chinese investment in the Global South has developed infrastructure, trade routes and access to markets. Local communities have benefited from telecommunication networks and transport infrastructure. The BRI, however, has evolved to become a mechanism through which China promotes its geopolitical "security" priorities. This raises questions about to how beneficial Chinese investment really is to local communities. The BRI has intensified the economic dependency of many countries in the Global South on China (as is made evident by the worsening debt situation in many African countries). Many countries in the Global South are prevented from "moving up the value chain" to more profitable positions as they are outcompeted from the start by China. A participant noted that Chinese foreign direct investment (FDI) is the least job-creating in the world. It also is unclear whether China is transferring technologies and know-how to local communities they enter, and there is the risk of exacerbated corruption in countries propped up by Chinese investment. The infrastructure projects China was interested in were beneficial to China, too, and could be used by China for military purposes in the future.

<u>Global Cooperation</u>: From the perspective of the Global South, it is problematic to consider the world an arena for competition among great powers, as this undermines the interests of the majority. The future of the world order includes the Global South. The Global South comprises the majority of the world's population and markets that are growing quickly, and it controls increasingly critical mineral

resources. For policymaking to succeed, there must be greater representation of the people affected by decision-making in decision-making fora. For example, as the world moves toward the 'Green' transition and climate change mitigation, this will come at a cost to many countries in the Global South, and many are facing the most acute challenges. The international community must consider how to actively involve Global South countries that will be affected by these challenges, and include them in decision-making so that they do not suffer from the trade-offs. AI is another area where this is increasingly important.

Great powers like the U.S. must gain a better understanding of the motivations and grievances of the Global South. In many impoverished countries in the Global South, there is a conflict between short-term goals (food, jobs, security) and what are viewed as lofty long-term ideological goals (striving for democratic values). Great powers would do well to recognize this tension and focus on how to improve quality of life in a tangible way (e.g., infrastructure and financial sector development, opportunities for trade) and more importantly, in the way requested. It was noted that democracy and promotion of human rights do not necessarily create wealth without access to markets, health, transport and public service infrastructure.

It is also imperative to build capable and resilient institutions within countries in the Global South that can effectively advance their people's concerns and coordinate with partners. At the regional and international levels, it is also important to develop effective institutions that can work to advance common goals.

While participants noted that the relationships that the U.S. has with both China and countries in the Global South are fraught, they collectively agreed on the critical importance of thoughtful, constructive dialogue and collaboration in this tense global context. In each of the areas noted above, FSVC, as well as symposium participants, will strive to identify ways to advance these policy recommendations and bring them to the attention of public officials and thought leaders.

Annex II – List of Participants

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