An Era of Possibility: Renewing Economic Order and Shared Purpose: Transcript of the 2025 Per Jacobsson Foundation Lecture by President Tharman Shanmugaratnam at the IMF Headquarters on 15 October 2025

It's a privilege to be here and, as Raghu put it, to follow in the footsteps of Per Jacobsson, and to join the company of the many distinguished speakers over the years. And thank you, Raghu, for not disqualifying me for the fact that I'm actually speaking for the second time in the Per Jacobsson Foundation Lecture Series — the first being 19 years ago, as some in the front row would know.

Economic nationalism is resurgent, and from all indications, it will run a long course.

So too, multilateralism, and the belief in the mutuality of nations, is at its weakest in 80 years, at the very stage when it is needed most.

All this despite the historic gains across the world that an open, rules-based order has brought.

- For sure, the rules were never equal, never fully equitable. Major countries, including the architects of the world order, were prone to periodic hypocrisy and selective adherence to the rules.
- But the rules were broadly accepted, and an open and integrated world brought prosperity everywhere - amongst low-income nations, middle-income nations, and the rich nations themselves. And very importantly, it lifted a billion people out of poverty, just in the last quarter-century.

Yet the mood has shifted, not least in the advanced economies. The enthusiasm for openness, the enthusiasm for international cooperation, has diminished. We all know that.

What went wrong?

Part of the problem has been the spread of zero-sum attitudes within society. There are many studies now that have been unearthing this.

- Significant overall gains in real incomes in the advanced economies, including for the majority of ordinary working people, were accompanied by losses amongst communities and regions displaced by new technologies or competition.
- And while the gains in jobs and incomes vastly exceeded the losses, the pain of job loss has been more deeply felt. The fact that job losses have been concentrated in communities has also magnified the sense of injustice.

- As the studies show, these concentrated losses, compounded by fading hopes of upward mobility, have encouraged zero-sum beliefs - the sense that one group's gain can only be at the cost of another.

Winners and losers were always inherent in international trade. But whereas trade in the first few decades after the Second World War, and after the formation of GATT, was largely between richer nations, it grew most sharply between the global North and the global South over the last three decades, driven by much larger differences in wages and other factor costs.

The gains and losses from trade were therefore magnified by the shift from North-North trade to North-South trade.

But critical here has been the failure of domestic policies - the failure to respond adequately to workers and communities who were losing out. And in some cases, support was even reduced at the very time that trade was being liberalised globally, such as what happened in the United States with the Trade Adjustment Assistance Act.

That's the main lesson. Public policy has to be far more robust to support those who are displaced - even where the majority of working people and citizens are making gains.

The signal shift in the global order is the steady retreat of the United States from its role as the defender of open markets, and more recently, from international cooperation on climate change, global health, and on the global commons which are now our largest challenges, wherever we are.

To be sure, the new economic nationalism is not so much a reassertion of national interest, but a shift in beliefs on how national interests are to be secured.

The US-led postwar order was not driven by charity. Its genius was to shape a cooperative order that promoted global prosperity, while serving America's interests.

The US, as the dominant power, paid large dues to underwrite the system. But it obtained much larger dividends in return, in its economy and financial markets, and through the unparalleled soft power that it gained.

There is little prospect of a return to that world — of a far-dominant power acting with an expansive and enlightened sense of self-interest.

It is commonplace to observe that we are past the unipolar world, at least in economic affairs. But the transition to a multipolar world will not happen quickly or smoothly. And, in itself, multipolarity gives no assurance of mutual prosperity between nations and economic security.

The transition gives greater reason for the renewal of multilateralism and the development of new forms of international cooperation. We otherwise risk a long and messy interregnum in global leadership, and the risk of a self-reinforcing decline into global disorder.

- We risk a repeat of the Kindleberger Trap — named after Charles Kindleberger's observations of the problems that befell the world during the interregnum in global leadership after the First World War.

It's not difficult to see how a slide into disorder could occur:

- Through the persistent sidestepping of the principle that disputes should be resolved by rules and norms, rather than by power;
- The balkanising of technology, supply chains, and payment systems;
- The inadequacy of climate action that takes us across dangerous thresholds, such as the collapse of the Amazon rainforest or the die-off of coral reefs, both of which are already foreseeable - the tipping points that lead to irreversible shifts in the planet's ecology, and likely harder-to-control global warming.
- The failure to avert the very real prospect of future pandemics, and the accelerating spread of drug-resistant bacterial infections.
- And a continuing doom loop where domestic anxieties and fraying social fabrics feed into distrust of institutions and in global cooperation - which in turn weakens national economies.

We must avert this slide into global disorder. We must develop a renewed multilateralism suited to a new era. Not merely for its appeal to common humanity, although we should never lose sight of that deeper reality, but because, without international cooperation and collective action, it will be impossible for any country, large or small, to secure its own interests and ensure the economic security that its people desire.

The rest of my remarks will reflect on three key challenges that we have to address in order to renew and sustain this cooperative international order.

<u>First</u>, we have to do better in creating good jobs and in supporting workers displaced by technology and competition.

<u>Second</u>, the US and China will have to manage their relationship differently, for that will be central to how we avoid a multipolar world becoming a more polarised and dangerous world.

<u>Third</u>, we have to breathe new life into multilateralism itself, so that it can help solve the world's largest problems. This includes reforming the World Trade Organisation. It

includes, at the same time, coalitions of nations exercising agency, to provide the scaffolding for the broader rebuilding of a new multilateralism.

Good Jobs

We cannot leave the creation of good jobs to the market. It's a lesson we learn from everywhere. Indeed, there is no efficient market for human capital - the development and continuous replenishment of skills, and the matching of skills with the changing needs of employers.

Good jobs, and the matching of skills to new demands, must be elevated to the centre of public policy. It is both good economics and a key to social mobility.

A vast wave of Gen Z youth in both the advanced economies and the developing world now confronts a generational challenge, that of securing jobs and getting on a ladder of improvement through their lives.

In the developing world, it is a challenge of unprecedented magnitude. 1.2 billion young people are entering working age over the next decade, and on current projections, we will fall short of providing jobs for 800 million of them.

- It is a crisis on a scale we've never seen. The largest shortfalls are in Sub-Saharan Africa. But even in parts of East Asia, where employment has historically been stronger, young workers now find themselves being shunted into low-skilled service-sector jobs or the informal labour market. Given their glut in numbers, they risk being stuck in low-wage, low-productivity work, with little prospect of moving up into the middle class.

In the advanced countries too, young job-entrants, including college graduates, are facing a much softer job market. In part, this may be due to cutbacks in hiring following a boom after the pandemic, but data also shows a decline in hiring for entry-level jobs in the most AI-exposed occupations.

And if AI accelerates this erosion, we face the risk of a generation already scarred by COVID-19 during their schooling years now being doubly-scarred by missed opportunities as they enter the job market, which in many cases puts them on a shallower ladder of progress in their working lives.

To create good jobs for a generation, lessons from around the world show that we have to respond across the whole chain of human capital development.

<u>First</u>, better prepare young people during their years in education. One of the features of the Gen Z upheavals we're seeing from Africa to Asia to Latin America has been a

demand not just for jobs, not just for an end to corruption, but a demand for a new education system. They know they haven't had a good deal. They know they've been through years of education that has left them unprepared for work.

We know what needs to be done. We have to invest more boldly in technical and vocational education and correct for the over-academisation of post-school education. It's a problem across the world. The technical and vocational route in education has been greatly neglected.

<u>Second</u>, we need intelligent systems to guide workers on the skills in demand, link them to opportunities for training to pick up the skills and acquire micro-credentials, and match them to employers.

No country has quite achieved this. Singapore is making good progress in developing such a system. There are other examples: in South Africa, for instance, the Harambee Youth Employment Accelerator, a leading NGO, has developed a system for youth vocational training, skills assessments, and job matching to employers that has already helped 1.22 million young people.

<u>Third</u>, we need a more proactive and muscular approach to helping those displaced by technology and competition. Again, we know what needs to be done.

Sweden and Singapore, for instance, have job transition programmes, including skills training, to give every displaced worker a realistic chance of restarting their careers.

Industrial policies may be back in vogue, but I'll have to say that success in job creation requires social policy on an industrial scale. It requires us to develop every human talent, deepen and upgrade skills continually, and advance social mobility in the process. It cannot be left to the market. It requires new forms of collaboration between the public sector, enterprises, unions, and community organisations - and individuals themselves being empowered to make choices. It is a large-scale and complex endeavour, and too often neglected in the rush to implement industrial policies in their narrower economic form.

US and China: Finding Stability

Next, I move on to the US and China, and the challenge of finding stability in their relationship

It is the most worrying faultline in international affairs. The faultline is widening, with the growing intersection between national security and economics.

The US remains well ahead of China in overall productivity and median incomes. It is home to the most innovative companies in the world, and has a significant overall lead in technology. It also has the deepest capital markets, and the dollar's dominance in payments and finance is intact.

But the US has never before faced a competitor of such scale and emerging capabilities as China. It has reshaped the political zeitgeist within the US.

China is already the world's largest manufacturer. It already leads in several key technologies, especially those involved in the green transition, in robotics and advanced machine tools, and in digital infrastructure. It will likely soon take the lead in biotechnology as well. And while it is still behind the US in AI model development, China is moving faster to actually embed AI across industries. It also has the very significant future advantage of energy supply, having massively expanded its solar energy capacity.

The US may be able to delay China's catch-up in key technologies, and possibly even preserve leadership in the most advanced chips for some time to come. But it is already evident that it will be difficult for the US to prevent China from advancing. China is investing significant resources at every stage of the chips value chain, for instance. It faces difficulties, but is making progress in overcoming US controls, and will keep making better chips.

The real question, therefore, is not whether China will catch up, or even take the lead in some key technologies. It is whether China advances while maintaining interdependence with the US, Europe, and other major technology players, or advances through a strategy of self-reliance.

Both outcomes are still plausible. Both involve risks. One can never be naive about the risks of interdependence. Interdependence will have to be actively managed by both sides to prevent the weaponisation of key technologies or materials. But it will surely be a more profoundly dangerous world if we end up with a decoupling of technologies, supply chains, financial flows, payment systems, and data. Or with the US and China developing whole AI ecosystems of their own.

There is an alternative perspective that we can borrow from the world of ecology on how the US and China might interact: one that accepts that they will compete vigorously, yet interact dynamically in ways that can be hugely beneficial for both nations and the world.

In ecology, the most dynamic places are not deep within one ecosystem or another, but at the edge where they meet - where the forest merges into grassland or the riverbank gives way to dry land. (The ecologists call this edge the ecotone.)

It is a zone of overlaps where species from both ecosystems interact and adapt - where hybrids flourish and new life forms emerge. The edge is often the most dynamic part of the landscape.

Now, consider that in the United States and China we have two different economic systems:

- One, a system historically rooted in markets, unparalleled in the world for its inventive culture and its ability to bring new ideas to fruition through entrepreneurial initiative, VCs, and an openness to the best talents in the world.
- The other, a system with state guidance and the ability to plan long term, blended with more intense market competition - an ecosystem that has for example enabled the largest scale-up in green technologies the world has seen.

Like the edge in nature, the interface between the US and China has been, and can yet be, greatly productive. We can see the world's most important breakthroughs yet, through trade and investments, joint ventures, two-way technological transfers between companies, and through networks of research labs and academic exchanges - and there is indeed a yearning amongst academics and scientists in both the US and China for these exchanges to resume. The US-China edge can enable the world to take big ideas and use them to solve our largest problems, and to drive down the costs of new solutions so that every nation benefits. Smaller nations too must have a place in the edge — as intermediaries between the US and China, and as partners at the frontier.

The basic point is this: the interaction and competition between the two superpowers is not a threat to be eliminated, but an opportunity to be managed.

The prospect may appear distant in today's geopolitical climate. But take the long view. The stakes are high. If we manage this well, the US-China edge will be a source of prosperity for both nations — and the world's greatest engine of innovation. If we fail, and progressively decouple the two systems, we face growing danger, and no winners.

Renewing Multilateralism

I move now to my third and final theme — which is the renewal of multilateralism itself.

We must reform multilateralism as we know it, and craft new forms of cooperation around today's multilateralism as well. There is no option other than coordinated, collective action if we are to tackle the largest issues of the global commons. We also have it in our common interest to prevent a rollback of economic development in the lower-income world, the consequences of which will surely spill across borders.

I will focus, in the interest of time, on just two issues: how we re-energise the WTO and develop new resilience in an open trading system; and how we establish a framework to govern AI, which is probably the most complex collective action challenge we have.

Reforming World Trade

The WTO has taken body blows, but it is up before the count, as they say in boxing. The reason is simple: its members want the WTO to succeed. They should now use the present crisis to move forward on issues that bedevil the system.

First, we have to reform the WTO's consensus decision-making process. It is a treasured principle, but has, in effect, been a recipe for paralysis. Several proposals have been put forward for reform; I won't go through them in detail.

- Singapore has made a proposal for 'Responsible Consensus', which seeks to give room for members to pursue their national interests while supporting the systemic interests of the membership at large.
- China has put forward a 'Pareto Consensus' proposal, where members exercise restraint in blocking consensus where a decision enjoys a substantial majority of support, without making any member worse off.
- There are other proposals for decision-making, such as a shift to qualified majorities or double majorities, so that the WTO can move ahead. They should all be considered seriously.

Second, we have to reform access to the system of Special and Differential Treatment. It is a critical component of the WTO for developing-country members to participate meaningfully in global trade, but it should be needs-based, with objective criteria for how countries qualify. The basic principle is simple - all WTO members should make commitments commensurate with their economic capabilities.

Third, we need an updated framework on countries' use of export restrictions. We've seen a proliferation of export restrictions on grounds of national security.

States do need a margin of manoeuvre on national-security issues as a matter of sovereignty, but exemption from WTO rules cannot be exercised lightly; it cannot be done by the wave of a flag.

We need a new discipline and collective commitment to contain export restrictions within the WTO's framework of rules. It requires, in the first instance, greater transparency - transparency when claims are made for exemption to Article XI of GATT, so that the WTO can understand a country's justification and assess the impact of its proposed export restrictions.

Fourth, we need reforms to avoid a global subsidy race. Industrial policy is likely to remain a mainstay of economic strategy, including in the advanced economies - some of this for good reasons, such as to accelerate investments in clean energy. But we need sensible guardrails to prevent an arms race in subsidies, that can fragment markets and destroy trade. There are precedents at the WTO, such as the caps on subsidies in the WTO Agreement on Agriculture - which can be evaluated for their relevance to new domains such as semiconductors and clean energy.

Fifth, we have to build a ‘pathfinder multilateralism’ through plurilateral and regional agreements. These are agreements that involve coalitions of countries, that can create momentum for fair and open trade before new rules are eventually multilateralised.

Crucially, these plurilateral agreements must reinforce, not diminish, trade liberalisation in line with WTO precepts. They must be WTO-compliant. There are several examples already, such as on digital commerce.

But one of the blessings of the new US tariffs is that the rest of the world is being spurred to open up trade with each other. Regional free trade agreements are now being taken more seriously by their members, and are also looking at creating bridges with other regional agreements.

Quick off the bat, the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) European Union are beginning conversations to see if they can align their standards and expand cooperation.

Governing AI Safety

I turn to my final topic on global governance for a new era, which concerns AI safety.

Experts predict a very wide spectrum of possible outcomes for unfettered AI development. It is not possible to pre-empt all the risks. But we do need guardrails to contain the worst, such as AI-powered scams and hacks, more powerful than we’ve seen so far; runaway misinformation that could undermine democracy in fundamental ways; AI-designed bioweapons and the risks involved in autonomous warfare without agreed rules.

States on their own will not be able to contain these risks, on their own. We have to set up coalitions, guided by science, to promote the responsible development and use of AI. We

We need, in the first instance, the equivalent of the IPCC on climate change. We need an independent group of scientists to come together to keep track of the rapidly changing field of AI innovation and advise governments on what the opportunities and risks are.

The United Nations recently agreed to set up an independent scientific panel on AI to provide that evidence-based assessment of AI's capabilities and risks. It hasn't yet been constituted, but when it is, it'll have 40 scientists in their personal capacity performing this role.

The US and China, again, are key. It may seem distant from today's news and preoccupations, but they will both surely have a common interest in AI safety.

- They will have a common interest, for instance, when AI is embedded in healthcare or transport systems, in developing common or equivalent oversight standards.
- They will have a common interest in avoiding the risks of AI-sparked conflicts, and ensuring that autonomous warfare does not get out of hand.

The Global Commission on Responsible AI in the Military Domain, commissioned by the Netherlands, recently recommended legally binding restrictions on AI control of nuclear weapons. Both the US and China had previously stated their agreement with this, as have the UK and France. The Commission also recommended Responsibility by Design, in other words, for ethical and legal compliance to be embedded in military AI systems from the time they are designed,

All the major countries, and smaller ones too, should be part of the policy dialogue and scientific exchange needed to formulate sensible guardrails for AI safety. A recent conference in Singapore, the International Conference on Learning Representations, held for the first time in Asia, saw 2,000 participants each from the US and China. We organised at the same time a Singapore Conference on AI (SCAI) among 100 leading AI scientists, again including a significant number of American and Chinese scientists - to start thinking through joint priorities for research.

It's an emerging field. We don't have multilateral agreements on AI safety, but coalitions have to get moving. We cannot wait until we know which part of the spectrum of risks of AI is going to materialise. If we wait to find out, it will be too late.

An Era of Possibility

History has shown us that at times of crisis and transition, perilous as they may seem, we can forge breakthroughs, and build new forms of cooperation, new bases for progress. That's how the Bretton Woods Agreement came about, after the Second World War.

The challenge today, however, is different, and more complex. We are not faced with a sudden, major collapse of the system - nor of a global war, not yet - but with the steady erosion of an open global order. And unlike Bretton Woods, we are in the midst of a transition, likely a long interregnum between a unipolar and multipolar world, There are reasons to be daunted by the task ahead. And there are not many grounds for optimism in a future grounded in rationality and morality.

But it is our responsibility to make it possible. So we can build a future of dignity and sovereignty, and a liveable planet for our children and generations after.

This is no time for timidity.