

Flagship Seminar

**How Russia's Invasion of Ukraine has
Transformed the World**

Centre for Social and Economic Progress (CSEP)

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Martin Wolf – Chief Economics Commentator at the Financial Times, London

Shivshankar Menon – Distinguished Fellow at CSEP, Visiting Professor at Ashoka University and Chairman of the Advisory Board of the Institute of Chinese Studies, New Delhi

Montek Singh Ahluwalia – Distinguished Fellow, CSEP and Former Deputy Chairman, Planning Commission of India

Shekhar Shah – Vice-Chairman of the Academic Council at the Indian School of Public Policy and the former Director-General of the National Council of Applied Economic Research

Moderators:

Rakesh Mohan – President & Distinguished Fellow, CSEP

For More Details Visit: <https://csep.org/tPLABI3>

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PROCEEDINGS

Rakesh Mohan: Welcome to everyone for this flagship seminar of the Centre for Social and Economic Progress. It is my great pleasure to have an absolutely outstanding cast of characters on the podium here. We also have a member of the House of Lords, UK House of Lords here with us, Nick Stern. Also I would like to welcome everyone who is on the zoom. The order of how we will do this is, I will introduce the panellists after Martin Wolfe will give a presentation. Then Dr Shekar Shah, then Mr Montek Singh Ahluwalia, Mr Shivshankar Menon. If Martin wants to respond to anything, he is welcome to. Then of course we will have Q&A. I will right now introduce everyone so that I don't interrupt the flow in the middle. Martin Wolfe, the main speaker today, is as everyone would know here is the Chief Commentator of the Financial Times of London. He has helped us in number of other events we have had for the past one or one and half years. We are very grateful of that Martin for you to take out this time during your visit to Delhi. He is apart from being the chief economic commentator of the FT, he is the honorary fellow of the Nuffield College and Corpus Christi College in Oxford University, Queens College of London and the Oxford institute of economic policy. Also an honorary professor at the University of Nottingham. Also Global Fellow of Columbia University and senior fellow of the global economic policy. Many of us have known Martin for many years since we worked together at the World Bank. That was in 70s. You stayed for about 3 years in India.

Martin Wolf: I left the World Bank. There is story there.

Rakesh Mohan: But anyway, he worked for India. He was the War head commander of the British Empire in the year 2000. The order in which they will appear is Shekhar Shah. He has a misfortune of also being my brother in law. I thought I would mention that it is clear to everyone that it is not a hidden treasure. Shekhar is the vice chairman of the academic council at the Indian school of public policy. His key achievement was to succeed me once removed as Director General of the National council of applied economic research. Prior to the NCAER he was the World Bank's regional economic advisor for South Asia. He also served in a number of different positions in the World Bank prior to that including being deputy research administrator, sector manager for governance and he was also the principle author for the 2004 World Development report 'Making services work for poor people'. Let me then introduce Montek. His biggest achievement so far of course is being the distinguished fellow at the Centre for Social and Economic Progress. He has of course been a notable figure in the Economic reforms of early 1980s onwards. He has served as deputy chairman of the planning commission for ten years. Also finance secretary in the Ministry of Finance. Would I be correct to say both positions Finance secretary and Deputy Chairman you are the longest serving, ten years and seven years or so?

Montek Ahluwalia: Probably.

Rakesh Mohan: Hope you will do the same thing here. He was also the first director of the Independent evaluation office of the IMF. He was awarded the 'Padma Vibhushan' which is indeed the second highest civilian award for public service in India. And his most recent book which is an amazing read was the 'Back stage – story behind India's growth years'. That tells you everything that happened after the 1990. Our other distinguished panellist is also a distinguished fellow at the Centre for Social and Economic Progress. He is currently visiting professor at the Ashoka University. He is also Chairman of the advisory board of Institute of Chinese Studies. Previously served as National Security advisor and foreign secretary. While he was in the Foreign Service he was India's ambassador to China, ambassador to Pakistan, ambassador to Israel and ambassador to Sri Lanka. He was mostly harbouring around the

neighbourhood. His latest book is 'India and Asian Geo politics, the past, present'. Why is it not past and the present?

Shivshankar Menon: Because the past is present.

Rakesh Mohan: One thing I should mention is that diplomacy is in his blood through his father and his grandfather. They were both foreign secretaries?

Shivshankar Menon: Not my father.

Rakesh Mohan: They were all ambassadors and also China actually given his grandfather. One trick question before I sit down. What is common between Shekhar, Shankar Menon and Montek? All went to St. Stephen's College. Martin, you are on.

Martin Wolf: It is an enormous pleasure to be here. I would say it is also an enormous honor except that I invited myself which I don't normally do. I would be embarrassed but a journalist can't be embarrassed. I was coming here for almost a week and I thought that this is where I wanted to be to give a lecture on something that I thought was important. I had this feeling that Rakesh couldn't say no. When Rakesh gave his answer about three of the participants, he didn't point out the four of the participants were all at the World Bank. So congratulations to you. Were you too?

Shivshankar Menon: No.

Martin Wolf: Good. This is even worse and more narrow path than I thought. I am also delighted to see other friends including Nick Stern. I didn't expect you to come all the way to Delhi to hear me on this topic. I will be more impressed by Nick's membership of the House of Lords if it weren't for the case that I go to bed every night with the Member of the House of Lords. I went to bed with this person for about 45 years before she became the member of House of Lords. On the matter on the Commander of the British Empire I can only say that our country knows no embarrassment and no shame. I apologize. What I am going to do is discuss some of the implications and I am trying to make it what we would call positive rather than normative. What I think will happen, is happening or will happen. You can probably guess from some of my writings that I think this is a pretty outrageous event which brings back for someone like me whose parents were refugees from Europe before the war or in my mother's case during the war. Pretty painful family memories. But I am not going to talk about that because I am well aware a similarly catastrophic events have fallen upon innocent people across the world on a regular basis including of course in the subcontinent. What I am going to do is talk about the implications of Russia's invasion.

Slide: I abbreviated the title to get it in neatly into some of my subsequent slides. So what are the implications? The most important point is it is far too soon to tell. This is very early. We all suspect or we in Europe tend to suspect this is an important moment in World History. That may be classic western centrism. But I suspect it isn't. It will have implications well beyond our shores not just in the short run which are obvious. I will come to it in a minute. But also in the medium and long term. I am going to cover and go through it as quickly as I possibly can.

Slide: Some reasons why this war might be happening. The guesses, there are no doubt more it is probably a bit western centric. Then I am going to talk about, they are actually data, on immediate economic results which include some very interesting changes and forecasts in the recent past by major international organizations. Mostly in my case I am looking at OECD which is the most recent set of forecast by an international economic organization. Then I am going to talk about what seem to be the immediate geopolitical results. Then I am going to talk about some medium term uncertainties. For me the medium term is the next couple of years or so. Then I am going to talk about longer term

uncertainties and then end with some propositions about the future which are very, at least by my sober and careful standards, provocative.

Slide: First let us start with the provocation. Why did Putin start the war? I going to go back to the past. But it is pretty clear to me at least that he started this war on February the 24th, why would he do so? Here are a number of possibilities which I think are linked together. The first is like it is the only project he has left. I will come to it in a second. The second is that he has adopted as I understand over the last 12 years increasingly the ideas of some nostalgic imperialists who are significant intellectual figures in Russia. The third reason is whatever he hates, he certainly hates having anything that looks like a functioning democratic regime in the soviet space. If Ukraine were to pull that trick off which I would show you in a minute, it certainly hasn't done so far, that would be very embarrassing and he would like to get rid of that. He objected we know very strongly to the over throwing of Yanukovych which we can of course regard as a coup and not a democratic act. I am not going to go into that. There is not enough time. The fourth reason is this has given him the perfect excuse domestically to do what he probably wanted to do all along... at least that has been my hypothesis since he got into power, which is to get absolute power in Russia which he has now achieved. War is a great motivator of absolutism. That is pretty obvious. Fifth, he really hates NATO expansion. That is perfectly plausible. The Russian leadership has hated it from the beginning. Finally, what people like Ambassador Menon would immediately identify is provocative European weakness. To put it mildly Europe is fantastically weak in almost all dimensions and it has made itself incredibly vulnerable. I am going to show you in a moment. So it was asking for it. These are some reasons which might be jumbling around in his mind.

Slide: This one is particularly interesting chart and it is my first proposition which is one of my favorite charts taken from my column and it shows relative GDP per head Purchasing power parity. This is the best estimate we have, controversial to a relative living standards with Germany at a 100 and what it shows is Poland, Russia in red and Ukraine in light Blue. What it shows you is that if you start in 1995 which is when this data started to be produced by the IMF for these countries Poland and Russia were the same. From 95 to 2008 with the global financial crisis they matched pretty well pari passu and Ukraine was far below and made no relative progress at all. Ukraine has been basket case from the European point of view in terms of development. It is a complete mess economically, extreme __, extreme corruption. 2008 that rise of Russia was largely related to the__ genuine reforms and some successes. But it was mainly related to the world price movement in the early part of the decade. Then the financial crisis hit and Russia basically stopped its relative rise. It stagnated at about half of Germany's GDP per head which by the way means the GDP of PPP which is about the size of Germany. It is a very small country. Market price is much smaller. So Ukraine has made no progress. Basically 2008-10 I talked about very senior Russian policy makers at that time. But Putin gave up on the economic project. That was very clear. Gave up on reforms, he rejected all the advice of people. And decided there is something else going on. It is the point at which he basically went for a political project at home and abroad. That is I think quite an important feature of the background to this disaster.

Slide: Now the economic results. These are charts which show over the last ten years the price of oil in nominal terms and the price of gas in Europe in nominal terms and you can see oil pulled around but in the last 2022 oil prices are already been rising very strongly from better off in covid times. But this continued to generate a significant spike. Not that dramatic a spike given that oil prices had already been by historical standards nowhere near the real peak despite the spike. What happened is gas prices in Europe on the other hand is sensational. It has made this commodity unbelievably expensive. This has very big implications for some European economies. So this shows that the natural gas as a share of gross available primary energy for Italy, UK, Germany and France in order. The blue colour bar with the red on the top and bottom show the share of energy coming from gas and the red bar shows how

much of it is directly from Russia. What you can see pretty clearly is with the exception of France which did a serious nuclear program is the most effective low carbon system that we have in Europe, they are all incredibly dependent on gas, unbelievably dependent on Russia. Both as a source of energy and by the way of crop for chemicals. So this is a serious thing for these countries from a war time point of view. That is what I said when I talked about provocative weakness.

Slide: The other things that happened of course is food. That is the thing really important for the world. I think more important than the oil price which was not so dramatic, not that important. But the food is a big deal. And basically this shows Russia and Ukraine together they account for a quarter for globally traded wheat which is the most important commodity. The area of each block shows their contribution to world exports and Russia is the world largest exporter of wheat. But Ukraine and Russia together are significant and that has been very seriously caught and Ukraine grain has disappeared and that has been particularly important for a number of countries which have very high dependence on Russia and Ukraine for wheat imports. But of course I am ignoring at this time to go into the price effect and you can see vulnerable countries Armenia, Sudan, Lebanon, Egypt very important and other African and North African, sub-Sahara countries which are very dependent on Ukraine and Russia. Some of them are very dependent on Ukraine for imports. I don't have time to go through the shares of consumption. Of course as indicated this has also had a very significant effects on world food prices. The overall FAO index and you can see that it has short up in nominal terms to levels that we haven't seen for almost 20 years. Nominal terms levels we have never seen, period. So the price of food, trade of cereals and the actual share availability for certain countries are obviously been very severely affected. It is not a perfect world market. This stuff doesn't get traded around in the short term very easily. So this is a major disruption. In addition this is what has happened to inflation forecast. This is from various cities as suggested. The blue shows the OECDs forecast for this year back in December 2021 and what the inflation they expected. I can't go through all those countries because it will take too long. But it is most of the larger countries. You are definitely in there. Almost bang in the middle is India. The red blob is what they now think the inflation this year will be. The major point is it is all a lot higher. It is a big inflation shock for most countries with a significant exception of Japan, China and Saudi Arabia. Go figure. But western countries and lot of developing countries a very big deal.

Slide: The final chart I think shows the comparable forecast for GDP with each column representing the decline in GDP forecast for this year compared to what they foretold would be. So for the world it was about one and half percentage points. This is a big deal. I suspected it is too optimistic. We will see. Again India is in there... it is little over one percentage point given that you are growing quite fast but still it is one percentage point. For some countries these are really big deal. For Germany they suspected it will be 2 percentage point. And I suspect that is hugely optimistic. And Germany is going to have a really big recession. And so will Italy. These are few of things we sort of know. This is a huge negative economic shock for a lot of countries. Not comparable in scale to covid. But it is definitely non-trivial. Welfare implications are dramatic particularly coming after covid. It will have particularly big effect on a large number of vulnerable emerging and developing countries that are large net importers of energy and food. It will also be very dramatic for Europe. Europe is going to have a significant recession without any doubt in my view. That bears on the question of will they stick with their policies. That is a prediction and the answer to that is I don't know. Nor do them by the way, yet.

Slide: Now the next thing I want to talk about is one of the immediate geopolitical results of all this will be. A shift in the German geostrategic posture which will be very striking at least in terms of rhetoric. The German government has indeed closed down NOSTROM II which was the very provocative and controversial old pipeline from Russia. They are chaired by the Gerhard Schroder. A very controversial position of his. That is been closed. They have gone along with all the sanctions policy. They have

committed themselves to a very large increase in defence spending. How much of that will go through we don't know. But that is paralleled by a clear shift in the European geostrategic posture towards again going along with all these sanctions indicating a profound hostility. The sanction policy I didn't have time to go through. It is pretty radical to put it mildly. There has basically been agreement on all this. There has been an agreement with Turkey permitting on a really quite revolutionary expansion of NATO to include Finland and Sweden. That may not seem very important. These are small countries. But they have serious armed forces unlike most of the west. If I were the Russians given their performance of military I would think this is not so trivial. Finland has a very long border with Russia. Promises to spend more on armaments by NATO. I think now those commitments might be realistic. A durable proxy conflict between NATO and Russia and Ukraine. That is there and doesn't look like ending tomorrow. To my great surprise so far largely bipartisan US hostility to Russia, the republicans have not at least so far been split on this as I expected despite a large number of republicans who think Putin is a hero. But they don't seem to have gotten through to congress anyway. Certainly a deepening of the already significant split economic and political between NATO and what is perceived at least at the moment in the west as the China- Russia axis. I don't have time to go into that whether it is plausible.

Slide: Now medium-term uncertainties. How long is this war going on continue? We don't know. It is possible to imagine many different outcomes. Which to me the most plausible is the frozen conflict. Another unresolved frozen conflict. I will come to that in a moment. But obviously that is a huge question for the world. And if it doesn't end, how does it end. A big second question is will the Europeans and NATO which is obviously US dominated actually stick together throughout this. For US this is a morally significant war with very limited economic consequences. It is a freebee as it were. It is a big boon to although the defence industry. It is more popular. For Europe it is a serious war in terms of economic cost, dramatic. And on the other hand what is being threatened is European peace as they perceive it. So how that plays out? We don't know. We know there is a very vigorous debate within Europe on how far to go with this commitment to the war. If it ceases will it be through exhaustion, an agreed ceasefire or a formal peace? My belief is it will be exhaustion. I may be wrong. I don't believe there will be a formal peace. I have read other pieces just published today co-authored by my friend Vijay Kelkar suggesting that there should be a formal peace. I would love a formal peace. But I just don't see how that happens. Fourth question is, has Putin got enough of what he wanted already? That is very crucial getting the large part of the southern coast and the eastern provinces, is that enough? Would that satiate him or not? Next question is, will the black sea be reopened and how? That is very significant for the food export much of which comes through the black sea. The Russia-Ukraine system is rather largely land locked. Will it be possible to rebuild Ukraine? It has suffered staggering damage. Six million refugees and immense physical damage will cost hundreds and hundreds of billions. Is that going to be provided by somebody? If so who? There is discussion in the west of seizing the Russian reserve, sequestered for this purpose. All very exciting questions. Will the sanctions on Russia ever end? Or are they here for indefinite future? My guess is they are here for indefinite future. That is a big deal. And will the outcome of this war affect in anyway China's view on its possibilities of Taiwan? These are a number of really big questions raised by the war

Slide: Longer term uncertainties. The first I think to me the most important is, is this one of those hinge moments in world history in which the emerging division of the world between competing great power blocks is cemented in concrete? That is a very big question. If so what does this imply for everybody who wants to keep out of that? How do you operate within a world in which there are competing blocks of this kind? NATO and some other countries which are close associates of Australia or Japan already on the one hand, China, Russia and perhaps some others on the other? What does that mean for the rest of the world? What do they do in that? It is not quite like the cold war but it is also it is not

like the post-cold war period either. It is something different. What does this mean for the future of the integrated world economy? How much of that survives in that sort of world, if that is the sort of world we are going to have? It clearly looks more likely than it did in February the 1st of the 2022. What does this imply for strategic relations? How do the main great powers of the world as they are today predominantly the US and its allies and China, how do they actually manage their relations in this new system. This seems to me really unclear and related to that is I go beyond my question about just trade. But it obviously goes beyond trade. How far can we actually manage to separate the world economy from the geopolitics? I have been discussing some very big issues for India.

Slide: This is just to point out. I won't be able to go through in detail. I have got a number of countries here including India. I look at the proportions of total trade done by these countries with China and Russia. That is the dark blue, the North America is the light blue, EU which is a little dark blue and the Japan and South Korea in red. You can see that for most countries the trade done with North America, EU and Japan and South Korea is substantially greater with China and Russia. But none the less for some of them China and Russia are absolutely enormous trading partners. Brazil, Indonesia, Vietnam, Thailand, less so for India and therefore they all want to preserve very good relations with both sides of this emerging system, if that is what we are going to see.

Slide: The other one I wanted to add in just because it is very big part of the debate. We have used sanctions in a dramatic way and the most obvious implication of that was that a lot of questions have been raised about whether the dollar system can be sustained after the shock. I just wanted to point out that as things started, this could change though I suspect it could take a long time, we shouldn't look at the US dollar alone. If you add up all the reserve currency held by countries around the world, essentially 96% was in the US dollar and the currencies of its close allies. So that is why the sanctions could be imposed in the way they were. It is wrong to think about this is a dollar system, it is a US and its allies system. China currency remains an incredibly slow aggregate in about 2 ½ % in world reserve holdings. That gives the west a very great deal of financial leverage which they show in great enthusiasm about using. That is precisely a very big issue for developing countries.

Slide: And the final thing is to try and get some sense... and this is very rough... already on the military imbalance. I am not going to go through the economic balances which are a lot about two to one in favour of PPP of the western countries and their allies against China-Russia. But this shows something interesting. This is calculated the purchasing power parity. So again it is just upwards, they are often very inaccurate and misleading figures for China where labour is so cheap and therefore they can get much more from banks for the defence purposes. It basically shows if you add all the high income democracies together their defence spending is significantly above that of China plus Russia. So that is the light blue as it is today made close to double. But the relative position is being transformed very quickly. If that were to continue in next ten to fifteen years one would expect the China-Russia which is basically China would in real terms be spending on defence as much as the western system. That is very important again for the future.

Slide: Finally tentative propositions after this brief introduction to this I think very significant event. It is impossible to imagine the Russian economy won't be permanently damaged by this attack. It has very significant structural economic weaknesses, very little in the way of competitive economy outside oil. I think in many ways, movement of people, movement of firms out of the country, the permanent sanctions Russia has chosen, to make it so poor, as a very significant choice and I also think very tragic choice but that is another matter. I think the war will unify the west at least temporarily. The key question is whether the Europeans can stand the pain for long enough to get through it which is about two years. I don't know. The war is creating a very serious dilemma for China and that is shown in the fact that they have been very, very quiet. I really am fascinated to see how they move out of this. I

don't believe Xi when he was talking to Putin thought that he was giving a blank cheque for this. That is my strong view and I may be wrong. When he said what he did about an unlimited partnership he sort of said it opened it up. The war in my view marks a decisive end of the era in which economics was the focus of great power relations. We are back to geopolitics big time. The war marks the point at which the world is also significantly divided into great power blocks. The PPP, western world plus China together are about 60% of the world economy. That market economy by the way, they are roughly the same. But the relationship is slightly different. They are the dominant players at the moment. The only by the way potential entrant into that group is obviously India. The war is raising quite profound questions again about the utility of sanctions on which I have a lot to say. But I don't have time to do it now. Of course the war raises big questions about the future of the open global economy. I would like to add to that. I know we are going to talk about India. But I decided not do so in this presentation. I think India is one of the few countries that is potentially a very large beneficiary of this plate. Because both sides would be desperate to have it on their side. So playing one side against the other seems to me the rational self-interested strategy for India. My sense is that the government is pursuing. I do not always agree with this government. Who cares what I think about that. I definitely agree with them on that. Thank you for listening to me.

Rakesh Mohan: Thank you very much Martin for this comprehensive quick tour of Ukraine and Russia along with rest of the world. Shekhar you are on.

Shekhar Shah: Thank you Rakesh and thanks to CSEP for having me here with this wonderful panel. With the very deeply insightful sets of questions that Martin has raised one can only add anecdotes and snippets and may be answer a few of the questions that he has raised. I will make four points. The first is about mapping out possible outcomes to the conflict. I really like this frozen conflict idea. I had negotiated peace. But that clearly isn't going to happen. If you think about the logical outcomes there is this frozen conflict or a negotiated peace where there is going to be exchange of territory. There is going to be loss of territory on one side and loss of face on the other. And maybe that is the bargain that most conflicts end up with. These are obviously unrealistic ones. The second one is Russia wins whatever that means. And the third which is perhaps equally unlikely Ukraine wins. We don't quite know what that would mean. The next part of laying out this structure would be to think about how these possible outcomes would map into the costs that we are seeing around the globe. Here I would like to go through a few of them. The first of course is sanctions on Russia which Martin has referred to and how long will they persist even after the conflict ends. I think that is a very important question that is going to deeply impact all the other outcomes that we may be thinking about. The second is energy shortages. Which again I will come back to with a little more detail in a bit. But they are likely to persist as well. The food shortages are likely to go away. Simply because Russia will export through the black sea at some point soon or whenever it is possible to do so. So we will see those things receding. On the growth slowdown and inflation as Martin has already referred to the OECD, they are estimating a 3% growth for 2022 down from 4 ½ %. And in 2023 2.75%. So that is a fairly sharp reduction already. The key question is will we have stagflation of the kind we had in the 1970s after the Yom Kippur war and oil price increases. I think that is the thing to watch out for if we are going to be looking at this issue. The next point is about fragmentation of the global trading systems and will they break down into blocks, I think I will come back to that quickly. The last two kind of mapping of outcomes is the role of China which is I believe one of the biggest questions that we were faced. Very important to us in India. And of course last but not the least the role of non-western, non-China countries particularly India as Martin has said. I think there is an EIU leader that said 'up for grabs'. India is in a position actually to command the kind of respect in international geopolitics that it has not had so far. My second point is about oil. I want to refer to two negative surprises that we have had on this. The first negative surprise is that Russia today receives more oil revenue than it did on February

24th. This is against all assumptions and goals of the sanctions that we so promptly moved to. Russia is selling oil at a discount or something like 35 to 40 dollars a barrel. Of course Chinese and Indian buyers are snapping up those supplies. The second negative surprise is that in the initial weeks after this happened there was this sense of great purpose amongst environmentalists and those concerned about climate change that this is really going to change the equation towards the emphasis away from fuel imports and fossil fuels to renewables. With the scramble to line up fossil fuel supplies this suddenly has receded. So that initial expectation has given away to this scramble. As you know the US president is going to Saudi Arabia soon, a country that he had kind of got very upset about with the international relations it had been promoting. In that sense this is a fairly major change and the question that then puts out is... now that Nick is here and others who work on climate change are here... what this is going to do to the climate change agenda particularly the significant advances in COP26 and what will happen in Egypt with COP27. Let me then get to my third point which is actually a positive surprise. This relates to the fragmentation of international trade and payments which is what we all expected will happen. Martin's colleague Rana Furhar has written about this. There are two teams in Washington. There is a team 'status quo' which wants to go back to the new liberal trading system. Then there is a team 'new rules' which is actually already devising new rules. We are all familiar with Janet Yellens talk about 'friend-shoring' as opposed to being open in a trading system. The positive surprise there has been the WTO ministerial meeting in Geneva last month where incredibly since 1995 they have actually managed to come together on a whole range of issues. There has been a fisheries agreement which is the first environmentally sensitive agreement that has been arrived at. They have agreed on vaccine and intellectual property protection on those vaccines. They have also agreed on some agricultural subsidy issues and access of the world food program to agricultural produce in countries where they might even be export bans. And finally they have come up with the idea of WTO reforms especially on dispute settlement. These are certainly unexpected. And it is not surprising that the flagship photograph that the WTO puts out is with Piyush Ghoyal and with Ngozi, the Director General of WTO. Final point and I end here. This is more a nit-picky point from an economist. With the kind of social protection measures that we have been seeing in those countries that have been affected by the high prices of fuel, fertiliser and food and supported a lot by the multilateral development banks, we are seeing a wholesale move to subsidies as opposed to targeted transfers, as opposed to the hard one policy reforms that would have achieved in these countries in terms of good fiscal policy as well as good social protection. I am afraid that this kind of regression back to subsidies is going to be very hard to get away from politically even after the emergency ends. Let me stop here.

Rakesh Mohan: Thank you very much Shekhar for the very quick comments. Montek you are on.

Montek Ahluwalia: Thanks Rakesh. Always a pleasure listening to Martin. In fact he raises an enormous number of questions. I think you are shrewdly careful not to provide answers to them. I think that correctly reflects the circumstances that we are in. I mean let us look at these questions and look at how things are changing. Sort of keep our minds open about what the answer would be. I won't go through all of that. One issue. He mentioned a lot of uncertainties. As he mentioned them I could see that we need to think a lot more about these. If this is uncertainty in the form of not fundamental uncertainty but risks, say chance of X% this way and a Y% by that way, it would be a wonderful kind of Monte Carlo sort of simulation. To look at what would happen if you assign different probabilities to each of these things. Because they all interact with each other. So actually it is quite difficult to look at the total effect of what might happen when there are so many things that are uncertain. I just want to comment on one part of it. A lot of a short term stuffs will get taken care of. On the issue of oil, first of all, that Russia will lose out on oil... I mean all oil producers if you are thinking of 30-40, they should be losing out on oil. Oil is meant to be phased out as a carbon polluting fuel. So in one sense one might say, I wonder, whether the shortages that the current crisis will generate will accelerate the changes

needed to bring about mitigation. Or will everyone say – oh my goodness, oil prices have really shot up. Let us spend all our time trying to get more oil out of the ground. It makes sense in the short run to avoid disruption. But I don't think anyone should be thinking that in the long run you want to change somehow or the other, getting oil will certainly go out of the way. So from that point of view the question again, using Martin's technique, is much smarter to pull questions than to provide answers. So I am posing it as a question. Is it fair to say that the disruption in the energy economy will be a boost for the climate mitigation effect or will it not be? To my mind I would venture to suggest that it should be seen as a boost. Although hugely uncomfortable in the short run. This is one point. The second point is what is it going to do to the world? Clearly, we are going to have a fragmented world. The old assumption that an open global economy with everybody participating with open and transparent rules and trade kind of making everyone democratic. This is you remember, the image that no two countries that have the McDonald's golden arches go to war with each other. Tom Freedman. We have moved into a world where the world is going to be fragmented. But it is not going to be fragmented in the sense that people are not going to trade with each other. Even between blocks there is likely to be some trading. I think Martin raised a very important point that is this an opportunity for India or not. Now traditionally India has been extremely reluctant although we mouth commitments to multilateral order, we have not been leaders in undertaking commitments which would advance the multilateral order. We tended to take the view that yes, all progress should be multilateral, but we should avoid a situation where any progress takes place which any of the constituents don't agree with. We have been strong supporter of the consensus rule. Which I personally think, if you seriously want to progress in advancing global trade, it makes no sense at all to have the WTO based on the assumption that the smallest country if it doesn't support something can effectively exercise a veto. It doesn't make sense. If you are going to move into a world where you have the opportunity to deal with different groups, India needs to be in a position where it is willing to play that pluri-lateral game with some aplomb. That is my second question.

Rakesh Mohan: Who is going to answer all these questions?

Montek Ahluwalia: He is speaking at the end. Frankly I don't think we have the answers. But I would be very happy if the questions were well understood. And people reflected on it and people kept those questions in mind when different groups, different political leaders and different countries present answers. I think we need to savour these questions for a while before asking to be provided the ready answers. On a limited point I am making, I agree with the view. But we may be able to play this a little better than we would have been able to play a world in which everything was just being based on progress with agreed multilateral rules. That is not a very easy game to play because people will clearly see that you are playing to your advantage. I think we should be quite clear that is what we want to do and build a domestic case for doing it. Not have somebody... there is one view which sort of holds that any dealing in a Pluri-lateral arrangement is in some sense moving away from our first best solution which is that progress should only be multilateral. We got to recognise that is not going to happen. I don't by the way take much comfort from what happened at the WTO. The progress made in WTO was miniscule and largely on marginal issues. It just reflected a mature understanding which is good on the part of lot of the countries that the world is in such a mess and if we allow the WTO also to fail people will really say this is the end of the global system. So let us agree on something. These are very marginal things that were actually agreed to. A lot of these things were more like let us agree to discuss what to do about the disputes settlement resolution. That is my two bits worth.

Rakesh Mohan: Thank you very much Montek. Shankar you are odd man out in this group of economists.

Shivshankar Menon: And World Bankers.

Rakesh Mohan: So, you are very much odd man out. So we expect very different remarks from you and answer all the questions that have been posed. Particularly the geo-strategic and geopolitical. Is it the end of the world? Is this epochal movement?

Shivshankar Menon: I am not so sure it is epochal. I do think that we have gone through a phase of transformation. I think Ukraine is only the last three things which have done this. We really have to go back to 2008 as Martin said and to see. I think we are in a situation today as Martin said rightly where politics is in command. Where decisions are not taken based on the market or efficiency. They are actually taken on political grounds. You are paying an economic cost imposing sanctions, paying economic prices for political reasons. How long for, as Martin says we don't know. But it raises four sort of issues. Martin did this very well. In the guise of asking us questions he actually made us swallow some pretty bitter truths. About where the world is going and what is happening. Let me try and take that argument a little further. For me there is four big risks that we face. But I do agree at the end that it is a sweet spot for India in a sense. One big risk is I think the West risks losing the global south. Because it is so involved in Ukraine and what is primarily a question of European order and frankly there is no end in sight as you said. No matter what the end is even if it is settled tomorrow with the negotiated peace you will still have a dissatisfied Russia in the heart of Europe. You will have NATO doubling its advantage with Russia with Sweden and Finland in NATO. And you will have completely unsettled European order where politics is going to drive. So you have much higher geopolitical risks. And what bothers the south are the real issues. Debt crisis and the IMFs 41 countries that are at serious risks today of actually defaulting. And it is not just... you have climate effects, you have all the effects of food, fertilizer, energy prices as you said. And basic development issues which no matter what the WTO did, it didn't actually address very many of those. I mean you can't say that they helped development in this meeting. They might have helped some world trade on the margins, maybe. But that is not the same. So for me this is the real risk. So where does the south go? The Chinese are bidding but that doesn't mean south wants to go there or believes in it. The other problem of course is what you mentioned. The expropriation of Russian reserve has really frightened everyone. And shaken faith in the Post World War system, the financial system based on what you rightly said, not just the US dollar but the currencies as well. Nobody has an alternative. You are seeing very strange sort of reactions. But over the next five to ten years there will be alternatives. The Chinese are already talking about digital currencies moving in too. But there will be attempts to create an alternative. Because the fear of being at the mercy of politics in the west is going to drive people. Whether they can find something, whether it will work... basically I see this impoverishing everyone rather than helping. In fact it is actually an attack on the system of which India was one of the greatest beneficiaries also over the last three decades. Which enabled the rise of China. But this is the core of that system and that worries me. The third problem of course is the effect of sanctions. Already thanks to covid and the economic slowdown the political and social contract in most countries, not just the US, but in China and India is being renegotiated. You have seen its effect on our domestic politics across the world. What Martin just described is going to make that much harder and is actually as you said war is good for authoritarians. War tends to concentrate power in the states, states tend to use wars. That is how we started with the income tax, you remember, thanks to war. This is the problem. Where does this lead in terms of ordering of our own societies and our own politics. Martin led us there and posed a question and sort of left us to figure it out for ourselves. That I thought was very well done. But I also agree entirely with what you said about this is a big dilemma for China. Chinese of course are voting with their money. Moving it out. But you see that across many societies. People putting in one member of their family somewhere and... Singapore is booming. You can't buy real estate in Singapore anymore because of all the money that is flowing into Singapore right now. China has several dilemmas. Belt and road doesn't work anymore on land. Can't go through Russia, can't go through Ukraine, where do

you go? After all Belt and road was meant to connect to Europe physically. There is a whole series of consequences for China. Just being tied to Russia is not the most comfortable or preferred option for China. That is essentially what this war has done. If we are cemented in stone as you said, if these blocks are going to be there a permanent feature, then that is a big problem. Yes, balancing or neutrality working with both sides is a good option. But it depends on how... because strategies are interactive. It depends on how other people react. China's problem today is that she is powerful but dependent for the first time in her history. She has been powerful and independent. She could tell George III to go to hell, we don't need your goods. When she was weak she knew what to do. She adjusted to the balance of power. She worked with the US, she worked with whoever. Today she is powerful, she has achieved what no other country did. Yet she is dependent for markets, for energy, for food, for technology. She needs to work. This is horrible. When you think of yourself, when you have an imagined past that tells you that you have always been number one. We are lucky we don't have to carry this burden. As long as we don't tell ourselves lies and we tell our history, we don't have to walk around with inflated heads and ideas of what we should be in the world. We can use this moment. I wish Martin would tell us more about how we should do that. I will stop here.

Martin Wolf: The very reason I was invited by a very fascinating European company, I won't say more about them, to discuss all these issues and this was a five-hour discussion. It was one of the most exciting things I ever did. It showed one, there are few companies who are really quite serious in the way they think about things and it helps if you are Swiss. And you have been around for a hundred and fifty years as they have been. The second is that they are really interested in everything including all these questions. What this has convinced me is I should have had an hour. But I will focus on the following questions. First I didn't address the environmental questions because they really are too complicated. Anyway, Nick is here. My view at the moment, again I am going to be positive, not normative, is that the optimal passage is it should accelerate the movement of renewables. I think that is the intention of European policy makers at least. I don't know about others. America is now in such a total mess on this subject after the Supreme Court ruling which has made everything even worse that it is not in the game which is a catastrophe of course. I don't know what difference it will make to China. I don't really understand where they are going. On India I wouldn't be commenting on. In the short run in the next couple of years the gas squeeze which we are now seeing is so serious that they are going to do whatever they can in central Europe to offset it. When I say whatever they can, it is whatever they can. So it is basically an opportunity because it shifts the economics in favour of renewables. But Nick here can tell us more about this. The second point I wanted to underline, I agree very strongly with – the west is losing the global south. It never had it of course. Though it tends to take it for granted. But it is certainly true that the global financial crisis apart from the really rather favourable G20 response, which was important and positive and genuinely meant, it is one of Gordon Brown's huge achievements. Then of course after that we had Trump, I won't go into the pre period, what George W Bush was. We had Trump which is not exactly a great thing. Then we had covid and now we have this. I think it is completely reasonable for the global south to feel that the west is essentially somewhere between extremely hostile and totally indifferent. You can decide that on day to day as if it were depending on how mad the leader is. I don't think this is going to get better. I haven't had any time to discuss American and European politics in detail. But they don't look like the better. So a really big issue. That gives an opportunity for the Chinese which I am confident they will not seize. I just don't think they are very good at it. That is the third point I wanted to make. I think you got this absolutely correctly. Russia does offer one thing to China which is very significant, very significant if they can control it, resource independence. If you want an empire and you are China, Russia is the place to have it in. Mr Putin thinks he is not in that situation, I think he is. From all other points, Russia is a very, very problematic entity for China to invest in because I think she genuinely

didn't understand it. It made relations between Europe and China really difficult. Up to now where Europe would go on the US-China conflict was not clear. It is at least much clearer now. It is not to China's advantage given that it does still need western technology, western markets, because it is a pretty open economy with all the vulnerabilities that go with that. So I agree that. The final thing I would comment on is apart from losing the global south, generally is the currency reserve issue, more broadly sanctions. The sanctions are very, very intrusive in multiple directions. There is no doubt because the US is basically trying to prevent anything which has a US components in it ending up in Russia. This involves enormous intrusiveness by the Americans and it drives anybody completely crazy including the Europeans. So they are very problematic, cutting the US completely as the one supply chains if one is a major producer of anything high tech is really hard to do. And will continue to be so for quite a long time. The Chinese are nowhere near replacing it in many areas. If they want to they need to completely control over Japan, South Korea and Taiwan which will be quite difficult to put it mildly. And finally I absolutely understand the desire to get out of the domination by the western currency block and I was stunned, I was not at all surprised by what they did, but I thought it was quite something all the same. I actually wrote a book in 2008 which said anybody who thinks the reserve holdings with US are safe hasn't focused on American politics. Sequestration is the easiest thing possible. The idea that China controls America because they have four trillion dollars of reserve, that was probably the single stupidest proposition in geo economics and politics I ever heard. It is always the other way around. A debtor who can survive you is always in a perfectly powerful position and that decision is not going to win soon. So I think whether you like it or not, I am sort of ambivalent about it in a way, the western block if controlled by coherent US and European alliance with others in it, Japan and the rest of it, will remain for the next twenty years or so the dominant power block in the world. It will take everything together and I believe that will be the case and if it doesn't, it is because it blows it so far then it is doing a fairly good job about it.

Rakesh Mohan: Thank you Martin, while you think of your questions let me start with a couple of questions. One is, something you mentioned about Ukrainian reconstruction. This will end at some point. It can't go on forever. And it will need huge amount of resources for reconstruction. There are two implications to that. One when you talk about the south actually... as it is there isn't a great deal of interest in financing the south. Second, Nick may perhaps talk about it, is the climate change issue and the transfer resources for climate change adaptations, first mitigation and so on. If the Ukraine reconstruction takes place the west will rush in to do the reconstruction for billions of dollars. That might be good for others economies because of lot of exports and so on. The first question is whether that is going to be a problem in terms of the south getting even less than what they are now. Second on the reserves, I think one of the consequence is going to be the Swift is going to lose its providence. This is something which India does have an advantage. Our payments systems are probably among the best in the world. I am talking about domestic payments system. It will be easy then to extend those payments systems internationally. That part of the reserves issue I agree with you. One can't see at present at least an alternative. On the payment system I think that will happen given what the west has done.

Martin Wolf: Let me comment on that very briefly. My impression and I am not an expert is that the Swift is hopelessly outdated. So if it disappears that will be good. I wrote about this this morning in passing, how to reconstruct the global payment system so it works really well is up for grabs for technological and political reasons. We can't do much worse than the systems that we now have. So good luck to you if you replace this. But the unit of count and I think the store value will for the foreseeable future will remain the dollar related. Because you can't beat something with nothing. India can also create a reserve currency but first it would have to get rid of capital controls obviously completely and then create a colossal liquid, safe, reliable financial market. That's become easier now

because we are out of safe. But that is a huge challenge. I argued for 12 years I think at least that China would never do this, against lots of people... even my friend Arvind Subramaniam very much, because the Chinese know that if they do this they will lose control in a very significant way and they don't want to do it. So that is not going to happen. On the reconstruction of Ukraine, the estimates we are seeing at the moment is about four to five hundred billion. That means putting everything back. But what it would mean putting it back new, those are extreme. Then of course if you include the psychological damage, the loss of GDP, it gets much bigger. The western is having a debate as I said on whether we should use the seized Russian reserves that would obviously imply the sanctions will never be lifted. The only question on which I feel reasonably confident is as long as Putin is there sanctions will never be lifted. I mean this may be a rationale or whatever it is, but there is no piece of paper that this man could sign, none, anyone will believe in and that is why peace is impossible. Peace would be possible if it includes the possibility of stationing... Ukraine may not be a member of NATO... but will have 50000, 200000 troops in it. So really getting a peace is almost impossible. Seizing their assets is very problematic and low. So I think nobody in the west knows how to do about it and you are certainly correct if you look at the overall budgeting of the west, 500 billion dollars include... what is the total aggregate of the western economies annually? In current it is 45 to 50 trillion. Of course they could do 500 billion but will they do so? It will come out of the aid budget and it will affect the aid budget. There is no doubt about that and their interest in this more broadly if you see, there are many issues including now the points he made here is very small. Just look at the way the British government just cut it. Aid budget was about the only admirable thing it was doing.

Rakesh Mohan: Questions. Abhishek?

Abhishek: Thank you very much. Very interesting stuff. One question is about our standing on the current mess. Do you think that focusing too much on this whole is going to kind of move the economists away from the other issues which are basically late response of the central banks and excessive stimulus that created this mess? And how it should we find distinguishing between that so that economist do not lose the context?

Nick Stern: Thank you martin. The talk is largely about questions if one can be excused for not asking questions but try to speculate on the answers. On China, I focus on climate but let me say something on China. Like the number of people in the room I have been working on and in China for 30 some years. It is absolutely clear as Shiv Shankar said, deeply, deeply uncomfortable about this. They are quiet. They are going to stay quiet until they work things out. In the meantime if somebody offers them cheap oil they will take it. And why not? But they have been dependent on a rules based system. I know that like others, but particularly China would manipulate a rules by system. They have been very strong on how important it is, they have been very strong on non-interference in internal affairs and they have recognised Ukraine as a country. India has been the same. Very strong on non-interference in internal affairs and they have recognised Ukraine. It is very different from Taiwan which does not recognise it as a separate country. I think the analogies between Ukraine and Taiwan are often overdone. The Chinese will work it out but I don't necessarily think that this would really turn upside down, whatever calculations they had made. I think we have to wait to see whether China wants this kind of block. My guess is they do not. They are quite happy that they have good relationships and get cheap fuel. Who could blame them for that? But I think the idea of a China-Russia block is not something that China has yet come to and we shouldn't do things which could increase the probability of that happening. One thing is some of the universities, China's students want to come to the UK and the US, Australia and so on and that is the kind of thing we should encourage because you have to play the long game in these things. And this is the kind of relationships that is extremely important. So that is what I would say on China. Wait and see. But don't do anything to push this in a wrong direction.

Hold out your hand on students, hold out your hands on climate, those are the things where we have mutual positive interest. Let me say something very quickly about climate. I think in the short run as Martin and others said, you just have to get through as best as you can. As best you can may not be very good. But you have to get through it as best as you can. If you want to keep the station running you do. That is what Germany is doing. If you have to sweat the North Sea gas reserves you already exploited for a bit longer, then that is something you have to do. If you are thinking about next time around, next disruption in these markets, you are going to leave bigger buffers than you had before, then build more storage. Then build more LNG terminals. So that is getting through. Somehow get through with considerable pain but that will happen. What you should do is again as Martin said and others said, is accelerate more in the direction of getting away from the fossil fuel which causes all these troubles this time around and previous times around. And this time different from 1970s, you have such renewable alternatives that you can get into the cost of which is constantly going down. If you are looking for your energy independence at low cost, it makes absolute sense to accelerate the move in the direction away from fossil fuels. I think to be fair that is what Europe is doing and will do. What you must not do and you must be very vigilant on that is to let the first of these disrupt the second of these. And there is real danger of opportunism in that context. There I lean very strongly on my friend John Brown the former chair of BP, who I think knows something about all this. His view and I share it is that you need more oil and gas in the next three four years because you are losing the big element of supply. And you need a lot less oil and gas in the next ten years. Because we are moving away in the direction we described. And if you explore new things as opposed to sweating old things you are lucky if you get anything within 7 years on new explorations probably a lot longer. If you follow that logic there can be no argument for exploration to find new sources of oil and gas. So we have to be vigilant against this very painful episode which we have to get through somehow been used as an argument for doing something which would be very disruptive to the longer term goals that we are sharing. We do share that it puts us at great risk. Finally we saw that the world doesn't want to fight about everything. That is one interpretation of the WTO. Even if they were minor steps forward, it was the spirit of saying – my goodness, we can't fight on every front. And on climate it is more positive than that that there is a sense of shared direction which I think is lasting. I have been very impressed as many others have been by Prime Minister Modi's speech at COP 26 will set a new route. Different kind of growth model. Much better than the dirty disruptive model. But you have to invest a lot to get there. And that is a big issue. You got to make that investment. At least we tell the last point about India and the G20. I fully concur with the others who argue that India is in a special position now. India has always been in a special position basically. But it is a much more favourable special position as the results of these events. That is a first. Second is that this is a moment where we can see that we really have to increase investment around the world very strongly in order to move and find a new route to sustainable development. If we do it is very attractive. That and if you put those two together then India's presidency at the G20 next year is really felicitous. Very happy for the world that India is now in that position because it can lead the argument precisely in the direction that we need to go and India has declared for. Which is how we finance and how we foster these kinds of investments that we need for a new model of growth. As Shivshankar said we all know what you meant about losing the south. The big fund that is the international institution keenly sensitive to that. Keenly sensitive to the need to draw people to gather to do something in climate is the most obvious thing. So a strong challenge and the leadership challenge from India in the G20, you declare the scope of climate change. We have these tremendous opportunities we can see the investments we have to make. If you are serious then you have to be serious about the funding. We know that the pressure is on Ukraine and unfortunately Ukraine with just the upper capita income were transferred to Ukraine count as ODA which is a very unfortunate statistical phenomenon. So it is going to deprive other developing countries of assistance. If you recognise what we have to do on investment and recognise that the ODA although

should increase is probably not going to for other poorer countries, you immediately reach the conclusion that the international financial institutions are going to play the major role. We can't now go into the details. But we really can see how to expand that and you can do no practically trivial cost on the budget. That is where India doesn't need me to say that I think and I hope just to be normative now for a moment Martin. I hope that is the direction which India will lead the world. And India will lead the world in these coming years.

Rakesh Mohan: Thank you. As always fresh and optimistic view point.

Nick Stern: I always distinguish between optimism on what we can do and optimism about what we will do. The former is a necessary conviction to do the latter.

Rakesh Mohan: Sanjaya Baru.

Sanjaya Baru: I am neither from St Stephens nor from the World Bank. I will have a few questions. I heard your interview with Karan Thappar in March where you argued very strongly that the sanctions being imposed would have devastating effect on Russia and the rest of the world. I wonder if you would like to reassess that based on what is actually happened in the last few years. What has been mentioned about oil prices going up and benefitting Russia and we are now buying oil from Russia which we were not doing earlier. You spent a lot of time trying to understand why Putin went into Ukraine. I was wondering whether they were rational reasons for why George Bush and the UK went into Iraq or Libya or indeed so many other places in the world. Could it be that in fact Putin felt Russia's national security was threatened? Which was not the case in Iraq for the US or in Libya for US. Could it be that his ability to prevent the eastward expansion of NATO made him feel that he had to do something in an act of desperation? In other words there are wars which are ideological and we have had many of them in the last 50 years. But this was a national security issue for Russia. Third, you say that the west will not sign anything with Putin. But even if Putin were to disappear today there is no chance from whatever I know about Russia today that any successor of Putin can repudiate what he has done. Because there is Russian nationalism. What Putin has tried to do is defend Russian interests. So even if someone were to take over when Putin were to be bumped off or just disappeared, I don't see that. So therefore would you suggest that the west permanently delink itself from Russia? Do you think it is possible given the fact that till date Germany and Italy and other European countries continue to buy Russian oil? We continue to buy Russian oil, many other developing countries have continued to do business with Russia and the rest of the world doesn't think that Russia is a pariah. Russia is waging a war. Many countries have waged wars. These wars are not nice. They kill people. There is no ethical justification for war. But countries wage wars. And finally I am a little concerned about what you said about China because our concern is that we don't want Russia and China to come together. But not because we want to be reaching out to China and having more Chinese students in our universities and having more business with China. The western relationship with China is fundamentally different. From an Indian point of view the entire effort is to prevent Russia and China coming together but not in fact for China to be benefiting from that. Do you actually see given the way in which the United States has been maintaining equipoise in dealing with China till today? That the China western relationship is actually become stronger as a result of this obsession about Putin.

Martin Wolf: On the first question on the fiscal amount of trade expansions, this little talk which obviously raised a lot of questions. To talk about that is the right way to start a discussion. I genuinely don't know the answers. Was not focused on what is the reason for high inflation today. That is a different subject. And I have written a lot of pieces on that. I thought I may have been clear but if I failed I am sorry that the inflation we are seeing this year has certainly been increased by the direct effects of the war. But we are already moving into relatively high inflation by historic experience before

the war ever started. The process that led to that outcome related to the impact of covid and the policies associated with that. Arguably though in my view not significantly, the policies for that were clearly very dominant factors of the rise in inflation we have been experiencing. This is just an additional shock. That is why there is demand going on. On Nick's points I think I substantially agree with his normative views. I have a couple of relative sort of positive statements. First is it is clear ... it kind of address the question raised here...I can't go through it full, I can discuss a little. The west wasn't involved in this... has moved well before china towards a more hostile stance. You could already begin to see that emerging in what was called the Pivot of Asia by Obama and of course immeasurably reinforced by Trump. You could see this United States defending its interests because it perceived the rise of China wasn't tolerable and significant measures parts of the US establishment thinks it is intolerable. And thought it intolerable for 20 years. And I think so increasingly. So they have been moving towards a stance designed to prevent its continuing. This is not something that the Europeans wanted to go along with. That is one of the differences that this war has made it easier for the American paranoia about China and... I have written lot of columns on this... to dominate western policy making. I am not therefore inclined for the moment this war is a cause of this breakdown. Clearly I have been writing about it for seven or eight years. But it clearly is a further step in their perception in validating their theory about China and seeing relationship with Russia as part of that story. This seems to me how movements towards geopolitical stress begins or perceived. My friend Allison has written a lot on that. I am very clear, I deliberately didn't made this normative. I am not implying at any stage in this that the west is innocent and China is guilty. Not at all. Beyond a point I would make which is positive is that if oil prices are much higher than they were before, we might want to prevent exploration which I think makes sense. The difficulty is that a very large part of the oil resources to be explored in the world are in countries with their own national oil companies and their own incentives and their own perceptions of the market. I believe that they will act accordingly. So preventing this exploration will be very difficult. On the fourth question you raised I actually can't remember the details on this conversation which is now three four months I have probably had about 10 or 15 of this similar instance. My view on the sanctions now would be that they will unquestionably do a very large amount of medium to long term damage to the Russian economy because it is basically being deprived of access to a very large part of the western technology and corporate activity and unquestionably it is losing a very large number of skilled people who are among the immigrants in that. But in the short run... I have made that point more recently but I didn't recognize it immediately... is the impact on gas prices more than oil prices. Oil prices are already very high. Plus the collapse of imports has immensely strengthened the balance of payments. The economy is still going to shrink by about 15% this year. That is the kind of estimate but I could be wrong. So I would say it is still a very costly war from their point of view. But their ability to manage the balance of payment have been more successful than I thought in the very short term. In the short term I mean first six months to a year. Second I did actually mention that one of its reason was NATO expansion. You may believe in other words people who believe like you do would say that was the reason and others didn't matter at all. Personally I think that is complete nonsense. You could believe it. But then I think it was deluded. The chances that NATO was going to attack Russia was zero. If it did go to attack it, it wouldn't make it much easier to hold Ukraine. You still have the whole of Russia to conquer. The reasons all these countries in Eastern Europe and Ukraine wants to join NATO was that they had the beneficial experience of Russian imperialism. They loved it. Not. So Putin could ask himself why does everybody wants to join the American empire. Isn't it strange? It is so terrible. Why do they want to join the American Empire? The answer is very simple. Because they had already enjoyed the Russian empire. That would be an issue for Russians to think about and quite a few did. Unfortunately they are all refugees now. This is a gang which has a particular notion of what national interest is. I don't believe that fighting a devastating war which has isolated you from a very, very large part of the world system would damage your economy

in my view indefinitely and reduce it to being a petro state in perpetuity is in Russia's national interest. But we can disagree what a country's national interest is. And if it is to say I can control more territories and bully more people then it is in Putin's national interest. By the way I am not here defending western, I was opposed to the Iraq war very strongly and I don't think they are comparable. We didn't intend to make Iraq part of our empire. It seems to me to it is part of anybody's now. It is Iran's. Which was a nautical consequence to that intervention by the way. One of the reasons for not doing it. You would say success is to Putin also with people with whom we will not be in peace because they won't have any different view of this consequence and there will be a permanent dealing from Russia. That is absolutely fine. We will have a permanent delink on gas. That is obviously going to happen in a number of ways. It is going to be very painful for the next two or three years. But we can work around that. And oil is a world market. So we won't import a single barrel of oil from Russia. China and India and lots of other places will import the oil from Russia. We will import ... UK, Europe, doesn't apply to the US obviously which energy self-sufficient. So it doesn't matter where we get our oil from. It will be reshuffled. It will cost a bit more because we can't use pipe lines. So it will come in tankers. But oil is a genuine world market. Gas is more problematic. So we will have to move to a lot of LNG. We will move to other sources of energy for electricity. It will take a while, but direct trade between Russia and Europe in this world which you described will not be restored. Which is where we were forty years ago. Now Russia and China is really interesting. I don't know at all where the Chinese will go on that. There are some people who think that at some point in the future, there are so many possibilities for that... the relations with China are going to be terrible. Between west and China that is my prediction. I think it is a disaster and I constantly argued that is a disaster and we bear more than half the blame. That is clear. But on the Russia side I can find it perfectly feasible that at some point in the future Russian leader will come along and say it is really not in our interest not to be able to play the west and China off against each other. That is a sensible position whereas we are a weaker power in between and not a large economy by the way. Apart from the oil resources which are in Poland. It is a medium size European country. But a Russian leader will come along and say we should try and make it up with the west somehow and there will be Westerners who will want to do that and the relationship will become perfectly bearable again. But again it won't be with Putin. May be not even his successor. But the successor of people are very unpredictable. What happened after the death of the great fascist who survived after the war Generalissimo Franco? Very surprising to a lot of people. I lived through it.

Rakesh Mohan: Thank you Martin. There is a question actually from the zoom. The first question is if the cold war is here to stay does it make better sense for India to revive and lead the non-aligned movement or to play a balancing game.

Shivshankar Menon: I think I have said recently that, yes, I do think that what has happened has created space for... but not really a non-align movement. Because this is not the old cold war. This is not two separate systems with nothing to do with each other. Even though some Americans like to portray it as an ideological war, it is not really. There isn't an alternative ideology which is as attractive as communism was at one stage. I think there are big differences in the situation we face today. So it can't be the old non alignment. Certainly not a non-aligned movement. But what it does create is base for a much more neutral approach by other countries in an attempt at as Martin said to see where they can get advantage in this. We are buying oil from Russia. This is a result of what is going on, of the polarization, of the fragmentation rather than a bi polarity that we think of in a cold war. I am very careful about using the word cold war. I do want to make another point though, about China and Russia. For me it is an alliance of animus. They are both united against the west. But there is very little they can do for each other's core interest. Russia can't do anything on Taiwan to China. I mean China's core interest are near seas. Her immediate neighborhood. Apart from central Asia outside that in

North East Asia, South East Asia, frankly there is no real Russian military or economic presence. And there is very little Russia can do for China's core interest which ultimately even her own internal stability depends on the international systems and her linkages and her dependencies on the rest of the world. And vice versa. As we seen Ukraine what can China do for Russia. Not much. Or for the European order which is so important to Putin. This is his primary theatre. So I think we have to recognize there are structural limits to this. But the west provides the target and provides the animus which unites them. So that is what we are seeing today. But from an Indian point of view obviously this is not something we should be encouraging.

Rakesh Mohan: Thank you Shankar. There is a question from the zoom from our friend Anupam Khanna. The elephant in the room on climate change that is emerging finally in the EU is nuclear. That supply chain is very vulnerable in geopolitics. What is likely to happen there?

Montek Ahluwalia: All the resistances to nuclear power remain and large-scale recourse to nuclear power probably at the moment would still meet a fair amount of resistance. But I am told that kind of small scale nuclear plants, mini plants kind of thing, are being coming back into fashion. I don't know whether we are ourselves experimenting but it is quite clear that if we can handle the problem of disposal of nuclear waste that is a source of clean energy that we should exploit.

Rakesh Mohan: You don't see a problem on the supply chain.

Montek Ahluwalia: No. On the other hand, contrarily with the nuclear deal all the earlier kind of resistances and frictions in the supply chain supposedly has disappeared. The real problem with nuclear is a) it takes a long time and expensive b) more importantly the huge resistances. The civil society has been very actively lobbying against large scale nuclear plants. We haven't done anything very much because the program is quite hectic. If we could actually again over a twenty year horizon, fusion and those kinds of things become a reality, it will be a totally different ball game. But in the short run the most probable thing, it might be possible to experiment with would be in a smaller scale nuclear plants. Why they are exactly easier to handle, just because they are disperse, maybe taking care of nuclear waste on a smaller scale is easier. I don't have the technical competence to pronounce on that. But around the world I think this is being talked about.

Rakesh Mohan: How does Baltics come into the picture when you talk about conflict in Eastern Europe? I can also add to that, with Finland and Sweden, from their point of view of joining NATO, but the Baltic Sea, Estonia, Latvia, Lithuania?

Martin Wolf: That is fairly simple. This is the eastern frontier of native enlargement. It is very obvious why these countries wanted to join NATO. I presume I don't have to explain that here. The invasion of Ukraine and the ideological language used to justify it clearly imply this is not so true of the other parts of the broadly defined soviet empires. Because they were part of the Soviet Union. Not just of the Warsaw pact. That, Mr Putin might by some logic think that these places should be taken. They are not in significant terms geographical location. They have sizeable Russian population which give a potential column. Though that wouldn't worry him much one way or the other. The Russian ethnic population in the eastern provinces certainly the one that has suffered the largest consequences of the invasion of the Ukraine. I will be very surprised it didn't kill vastly more Russian speaking Ukrainians than Ukrainian speaking Ukrainians. This wouldn't worry him the least of course. So they feel very, very vulnerable. Therefore they are very happy with Finland and Sweden are joining. And they won't, are getting substantial increase in NATO manpower on the ground in their countries. The aim being to convince Mr Putin... I am telling what their perception is... that an invasion of any of these countries means inescapably a full frontier war with NATO which most of us think if it becomes a conventional

war between the Russian forces as demonstrated in this war and NATO, it would not go very well for Russia. So the aim is to, whatever happens in Ukraine nobody knows, is clue that the NATO is very determined and America under Biden leadership is also fighting it, whatever happens in that that will be it. That is the focus of western policy on Baltics. Baltics have been absolutely brilliant in managing the NATO consensus on their behalf.

Rakesh Mohan: Thank you. Before I go to the last question from the zoom, anyone over here? Yes, Divya?

Divya: I actually have a question on India's growth. Couple of years ago there was as you mentioned that India's economic growth will outgrow China by 2021 if nothing exceptional happens. We have seen covid play out, the Ukraine war. But even pre covid we saw India's growth rate declining. As an observer of the Indian economy what do you think went wrong and what do you think India can do to regain its stronger growth?

Martin Wolf: Very briefly. Obviously I didn't envisage the timing of covid. The possibility of a pandemic anybody who is following these matters knew about. That is a big distraction and obviously it hit India hard considerably harder than China on the figures. Broadly speaking my view remains that China's growth is also slow and I believe structurally. So I would be not at all surprised if the Chinese growth in the next decade... depends on many things... was not more than 4% and I think that is perfectly conceivable. I would still be optimistic that India's growth will be faster than that. So I remain of the view that there is a very good prospect that India would be the faster growing of the two. Whether it will be the fastest growing large economy, large country in the world? I don't know. It depends on... the country I am quite interested in is Indonesia. I haven't decided where that is going to go. I certainly expected it to do better than Brussels. That country is not much smaller, it is pretty big. But the growth has declined. The growth statistics are being challenged. I am not an expert on that at all. But I do believe that the potentials for India to grow faster than 4% and indeed 6-7 or plus exist, it can be exploited, I see no reason in principle why the Indian government shouldn't be able to do so in collaboration with increasingly sophisticated private sector. There are very large opportunities for India including in renewable energy and many other areas. So I remain on balance quite optimistic that India will outperform China in the 2020s and the truth is by 2030 I will be retired or dead. So nobody will be able to come back to me and say you were stupid yet again. But I am hoping India will prove me right.

Rakesh Mohan: One last question from zoom. Then we will end. Actually it is a continuation of this question. Given that China's geopolitical rise is essentially predicated from its economic performance in the last 35 years. In what you just said they are slowing down to 4% or 5% or whatever do we still think that they will keep on doing that? If they are doing 4-5% a year for the next 20 years they are still doing very well indeed. We wouldn't catch up with them in the next 50 years given that we are 1/5th their size. Even if you go much faster than they will. So the question is that is there going to be a sharp plateauing, drop, and recession in China?

Martin Wolf: These are really wild guesses. Given how China has performed for India to surpass it as an economy before 2050 it would be a very remarkable achievement. The population will be bigger by then but not so vastly so that sheer number will do it. China still has enormous development potentials. Its GPP ahead of PPP is now a third of the US. I think India is about 12% or something like that. You can work out the relativities. That gives if China performs well, policies it has got a fair amount of pretty fast growth potential. The country seems to slow really dramatically when they get to about 60 to 70% of US levels. That would allow China to double its GDP per head and to catch up China India, other things would it be equal, when they get to 60%, India would have to go from about 12% to about 60%

of US levels in 30 years. That would be almost impossible. It would be an incredible thing. I don't think that is relevant. But it is very plausible if things go reasonably well here that India would be the third largest economy on every measure long before that and it will have a great deal of weight in the world economically and other ways. It will be one of world's major powers be it beyond any doubt. On China's growth, a collapse. I believe they have some very large structural economic macro problems. But they are all manageable because the Chinese government controls all the relevant levers. Beyond these issues raised a complete breakdown in the world order. So I would agree that China should be able to continue to grow 4-5% or so for quite a time while it continues on this relative growth ladder. But it does mean they are making a lot of pretty sensible decisions. And I am not sure... the only real question is that whether the quality of that decision making around Xi Jinping is as good as it needs to be. I am concerned that the move back from the communist system as Deng created it post Mao, the present system which gains from the increasingly personal dictatorship, whether they are losing the benefits of the institutionalization of system post Mao that Deng introduced. And moving back to formal despotism which is historically tended to do rather badly. And if that is true, these all conditions that could affect their performance very big time. Over time absolute rulers in my view, I am thinking the same thing about Putin, go mad. And if you allow absolute rulers, absolute powers forever sooner or later they start doing very dangerous things which is why in my view, I say with all humility, Deng Xiaoping was an extraordinary political genius. The greatest figure outside war times. The way he tried within the Chinese system which he embraced to I could say running the country to create institutionalized diffusion of power and succession of power was incredibly important. I think it worked very well until now.

Rakesh Mohan: Before is I close any comments from any of you?

Shekhar Shah: Maybe I should just say that while we may think that there is going to be fragmentation, I suspect that WTO has actually had a new breath of life pumped into it. Maybe it is adversity that is driving the institutions that were not able to get together. They actually now hang on to, as Martin said, they just have nothing else.

Martin Wolf: Well, I have written one piece. I think the south with India can actually drive these institutions now because they have enough weight to do so. And they have the opportunity that China and America are going to fight each other to the death.

Sanjaya Baru: I think this is one of the good outcomes of the Russian war with Ukraine. That finally after 20 years WTO ministerial met. While I agree with Montek that the outcomes are not that substantial I do agree with Shekar that there is a new sense of revitalization of institutions. Because the voices of the global south have been heard for the first time after the Doha ministerial meeting. And the only reason the voices of the global south have been heard in the WTO this time is because the North is trying to see if in G20 we are a little over-friendly, Indonesia and India are going to be chairing G20 for the next two years. I think that north south element in the east west conflict is to me an extremely interesting development. I just thought I will add that.

Martin Wolf: I agree with that.

Rakesh Mohan: So, we have a consensus here among the Indians and almost Indian Martin.

Martin Wolf: I accept that with gratitude.

Rakesh Mohan: It all just remains for me to thank first Martin, Montek, Shankar and Shekhar for taking all this time and having this discussion. Of course everyone who is here. And the 200 plus people in the Web world who are presumably listening to us. It remains for me to thank my team. They worked very

hard because we have been trying to perfect this hybrid system and we had some glitches in our last two attempts which we have improved on. Once this ends I will not get the same kind of feedback to put it mildly from the last one. I do want to thank Shishir, Aruna I think is busy monitoring Zoom, Krishna over there and everyone else in the team and also our technology providers, thank you very much. I hope that having done this we can do this more easily in the future and of course we will keep calling on you Martin either in India or wherever you are. Thank you very much indeed.