

### Episode 3 - GROWTH: Conflicts, Supply Chains and Resilience

00:00

#### MANDY

Hi, I'm Amanda Hale, and welcome back to our Industry Perspectives podcast series, which unpacks the complex forces shaping our world. In particular, the global financial services industry. In our latest episode, we'll be looking closely at the recent performance of the global economy. And joining me today as co-host is my colleague, Andrew Newson.

00:24

#### ANDY

Over the past few years, we've seen a range of economic challenges, but the global economy has somehow continued to grow at a solid, if not spectacular pace. So, what explains the global economy's resilience, and perhaps even more importantly, what opportunities and challenges do we see emerging over the coming years?

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#### MANDY

Clearly, a range of so-called mega trends are poised to be in play. These include amplified geopolitical pressures, surging public debt levels, the emerging AI revolution, and, as the US tariffs highlight, intensive hiring headwinds for global trade and capital flows. Bottom line is the resilience that we've seen in recent years likely to continue?

01:02

#### ANDY

For firms, whether they have a global or local footprint, growth is an existential imperative.

Decision makers at board level need to stay informed of these evolving developments.

Strategic planning and the ability to detect early potential tailwinds or headwinds are integral to achieving and maintaining a competitive edge.

Underline economic conditions necessarily influence business decisions, talent mobility, and market access.

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## **MANDY**

**So how do we make sense of it all? What are the real world consequences for businesses, nations, and individuals?**

**Today, we'll be diving deep into these critical questions.**

**We will explore everything from the future of global trade in an era of sanctions to the economic ripple effects of AI and the risks from high public debt levels.**

**We'll also discuss some hidden risks that could blindside us all.**

**Joining us today are our expert guests to help us navigate this volatile landscape.**

**Rob, Nathan, perhaps you can start by introducing yourselves.**

02:00

## **NATHAN**

All right, well, I'm Nathan Sheets. I'm the global chief economist at Citigroup.

In total, I've been at Citi for about seven and a half years. In addition to my time here with the firm, I spent 18 years at the Federal Reserve Board in Washington, D.C. in the International Finance Division, including through the time of the global financial crisis, and was later the Under Secretary of Treasury for International Affairs from 2014 through 2017. So great to be here and always thrilled to share the microphone with my good friend, Rob Rowe.

02:43

## **ROB**

That's why I wanted Nathan to go first, because that's a very impressive resume. I'm Rob Rowe, I'm the acting global head of research here at Citi, and I'm also the head of the Global Strategy and Macro Group. I've been with Citi for about 37 years.

02:57

## **MANDY**

**Well, thanks both for giving that information.**

**Let's kick off then with the first question. So in recent years, the global economy has been hit by a range of challenges, including the Russia-Ukraine war, surging inflation, rapid central bank rates, US tariffs, and now the war in Iran. Through it all, the global economy has continued to record solid growth, and the global financial markets have generally remained firm.**

**So to kick off the conversation, how would you explain this resilience, and is it likely to continue?**

03:29

**NATHAN**

Well, I can tell you that this is something that we at Citi Economics, we have struggled with in recent years.

The year after year, as the year began, we said, oh my goodness, there's a conflict in Ukraine, and that was in 2022, and 2023, and 24. It was very rapid central bank rate hikes, including the Fed, but other central banks around the world as well. Last year was the tariffs.

And in the face of these concerns, we've marked out our forecast for global growth. And then we have spent the remainder of the year marking it back up again, as the global economy in recent years has continued to grow at a pace roughly in line with its 3% rate. And we have seen the economy just kind of shake off these challenges and these difficulties and somehow keep growing.

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**ANDY**

**So, is it proving difficult to tie down what's driving this resilience?**

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**NATHAN**

I don't think we fully understand the drivers of it. I'm not sure economists with large understand the drivers of it. But my hypothesis is that it's about flexibility and adaptability amongst firms on the production side of the economy. And the reality is firms are able to respond to shocks much more quickly, and to challenges much more quickly than they did a generation or two ago. And why that is, ultimately I think it has to do with access to information and to improve capacity to communicate. And it's just made us all more agile and responsive to economic conditions. And I think we see that in the earnings reports of individual firms, and we see that in the top line performance of the economy.

05:29

**ANDY**

**Rob, any further comments to add on this point?**

05:33

## **ROB**

I guess what I would add to that is, the global economy has had the COVID experience and has had a financial crisis experience in the past. And I think the evolution both of financial markets and the evolution of the economy in terms of its resilience is based on those experiences as well. I know Nathan did a lot of work on supply chain, and continues to do work on supply chain, but supply chains have been made more resilient.

They were made more resilient during the COVID crisis. And if you look at market conditions, the regulatory environment has been flexible, but also the capacity to move capital around the world has improved dramatically. And so I think the world is able to respond to these things in a measured fashion and adjust to them. And I think surprisingly, Nathan, you'd probably agree, I'm surprised that the adjustments initially to the tariff issues, we had these tariffs, we thought they would have a much larger impact than they did, but I think corporations around the world, governments around the world adjusted to these tariffs. And of course, the tariffs moved around but just think about the fact that they were able to withstand those, and I don't think they've had a meaningful effect on the global economy.

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## **MANDY**

**Do you agree with Rob on that point? Does it demonstrate flexibility?**

06:51

## **NATHAN**

Yeah, yeah, and just echoing Rob's point on the tariffs, is this is a great example of that flexibility and adaptability that I was mentioning, which he was just highlighting.

When you look at the shifts in US trade over the last 18 months in the face of the tariffs and the other policies of the US administration, we've seen an appreciable decline in the share of US imports coming from China, and a meaningful increase in share coming from a variety of places. One notable one is from Taiwan, that's largely, I think more due to AI than it is due to tariffs, but countries like Vietnam and Mexico were also importing more.

So we've seen US trade reconfigure in parallel, we've seen Chinese trade reconfigure, that China lost all that US market share, but its overall exports have continued to grow. So we've seen in the face of the tariff, this response that Rob described, really highlighting the flexibility of the system and the capacity of firms to respond. And I think it is new relative to, even I've said a generation ago, but let me even be more specific,

we're all relative to pre pandemic, seven or eight years ago, I don't think it was this flexible.

08:16

**MANDY**

**That's interesting. So, let's drill down on some of those thoughts in a little more detail.**

**First, a lot of digital ink has been spilled on geopolitics. How important the geopolitical developments in shaping growth, both in the short and the long run?**

08:31

**NATHAN**

Well, I'll kick off here, and this is something Rob and I debate whenever a geopolitical shock emerges.

Kind of my sense is that as you're in a place where you're reading those headlines about developments in Russia, Ukraine, or developments in the Middle East, and so forth, you do have to take note, you have to be cautious. There are important market responses.

Clearly, when you think of this class of geopolitical risk and geopolitical shocks, as important implications for commodities markets, particularly including oil prices, and as we've seen in the current conflict with Iran, oil prices are still vitally important for the global economy. But we have also seen that the global economy, once that initial kind of shock and surprise has worn off, the markets and firms and consumers are able to kind of parameterize and assess the extent of the potential disruption. And what we've seen in even severe shocks like Russia-Ukraine is that over the course of some months, the global economy is able to get back on its feet and growth is able to continue. And to be concrete, in 2022, when we were expecting a very large negative bite as a result of Russia-Ukraine, the global economy grew at a 3.4% pace, which is above trend and is a very solid performance.

So, I think we've got to take note. There are important implications, particularly in commodities markets, these geopolitical shocks or sources of uncertainty, but they haven't been the key drivers of global growth over, say, the course of a year or two years. So, I'm more inclined from kind of a markets kind of perspective to take note, but I would strongly also urge those who are thinking about this from a financial perspective in managing firms and a business aspect, as well as those thinking it is from an investment standpoint to not overreact to it.

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**ANDY**

**Thanks Nathan. Rob, anything else that you would include on this point?**

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**ROB**

The only two things I would highlight here is when we originally were looking at the situation in Iran when it first started, and I know Nathan did a lot of this assessment too, what really came to mind wasn't the, I guess I could call it the digital nature of the geopolitical conflict in terms of whether it's, you know, continues or not, or whether we can a resolution or we continue fighting, but really what was more important was the duration of the event. And I think that it's kind of interesting to see how this is playing out because originally the concern was, you know, or the hope was that this would be a short duration event. And that if, for instance, the price of oil were to stay relatively elevated for a long period of time, meaning \$120 a gallon, that this would have had a very, very detrimental effect on the global economy.

It is actually going longer, but it's been an on and off kind of conflict in which we've had moments where we've had a relief on supply and where we haven't. It is a fifth, I believe, of all the oil production, and so it can have a significant effect on the economy. So we do, again, have to be cautious in things like this because if this were to elevate from where it is now and it were to be extended over a longer duration or a longer period of time, that would be worrisome. So far, again, the global economy has been resilient in all those circumstances. The second thing I would mention is I worry a little bit about whether these geopolitical events remain separated from each other or they start to inform each other in a more larger global geopolitical event. These events are interconnected in a sense, right? Iran and the Ukrainian war are very much becoming interconnected, and the reaction function from Russia and China will be interesting, and it's bringing folks' concern about Taiwan forward again, given the distraction that the U.S. may have with Iran.

So, I hope that these things don't start to inform each other in terms of actions that may be taken. Just recently, a headline that Japan, which now has a formidable army and navy, just tested a version of a Tomahawk missile from one of its cruisers just to establish with China that it can fire a long-range missile that can go very deeply into China. And China was very concerned about this. So, we do have to worry about whether these things proliferate in a more consolidated manner from where they are so far.

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**ANDY**

**Thanks, both. In considering these macroeconomic effects, would you draw a distinction between geopolitical shocks like the Russia-Ukraine war and the recent**

## **turmoil in the Middle East versus deeper structural development such as the U.S.-China rivalry?**

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### **NATHAN**

I think the answer is absolutely.

And in some sense, this question is nicely echoing that last comment from Rob about, you know, should we think about what's happening as a series of unrelated kinds of challenges and developments? Or is there some deeper kind of unifying theme underneath it that's driving these things?

And I think that one of the deeper things that I am quite worried about, and I see it as a shaper of U.S. policies in recent years, and probably Chinese policies in recent years, is this ongoing rivalry between the United States and China that you referenced.

When I think about U.S. tariff policy, the U.S. has put tariffs on a whole array of countries, but I think at its root and core, it really is response to China's increasing economic heft and U.S. ambivalence about China's growing role and prominence in the world.

And I think that a number of other kinds of U.S. policies, sanctions and the like, are similarly driven and fundamentally by a concern about China and a desire to position the United States in a more favorable way relative to China. Now, of course, as an economist, I have concerns about the advisability of this agenda, whether it's gonna take us where we want to go, but I think this U.S.-China rivalry is a key underlying factor. It is durable, and it is something that I have been talking about for the last five years, and it's something that I certainly expect to continue to talk about over the next 5 to 10 years, and maybe even beyond. And I say all of that without even flagging what is maybe the central risk that U.S.-China rivalry not only influences the trajectory of U.S. international economic policies our openness in our trade policy, but that also we see some kind of a conflict in Taiwan, which would truly be in my mind a first order geopolitical event.

16:19

### **MANDY**

**Well that time went by very quickly, as we have already reached the end of our first discussion on growth in financial markets.**

**But there is still plenty to discuss on this growth topic.**

**So, stay tuned for our next episode, with Nathan and Rob, where, in the context of growth, they will discuss AI, innovation and power demands.**

ANDY

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**This podcast was recorded on 11 August 2026.**