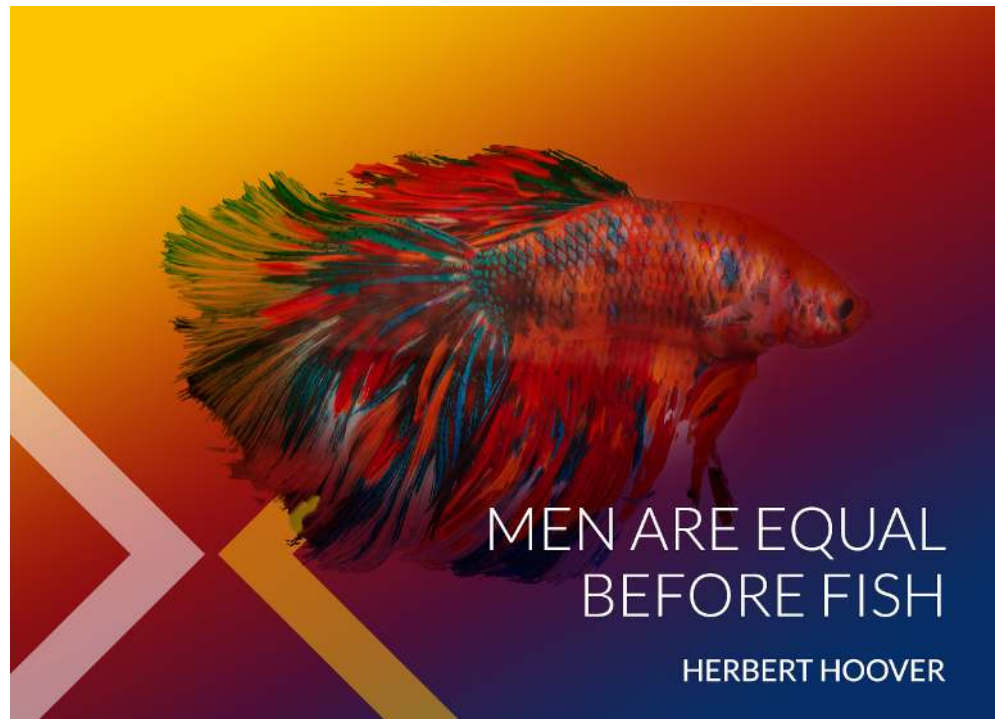




## GLOBALISATION OUTLOOK

by Joe Zammit-Lucia

February 2020



MEN ARE EQUAL  
BEFORE FISH

HERBERT HOOVER

### Will fish derail UK-EU talks?

#### POLITICS NOT ECONOMICS

If ever anyone doubted that today's trade deals are about politics more than they are about economics, such doubts should be dispelled as fishing rights seem set to take centre stage in the upcoming UK-EU negotiations.

Fishing accounts for 0.12% of UK GDP and 0.1% of UK employment. In Spain, fishing accounts for around 1% of GDP – although only a proportion of that is dependent on catches in UK waters.

Yet fishing is politically important for everyone. Fishing has both emotional resonance and concentration in limited coastal communities.

In the UK, it is doubtful whether Boris Johnson, with Nicola Sturgeon snapping at his heels, can afford to be seen to have sold out Scottish fishermen (should I be saying fisherpeople??) so soon after having sold out his 'friends' in the DUP.

Neither will the French or the Spanish easily give up access to UK waters – again for political rather than purely economic reasons.

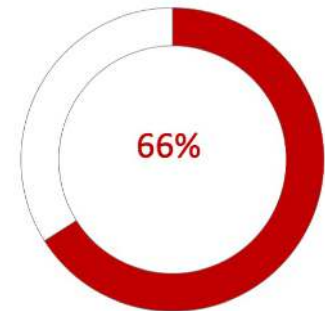
We shall see whether fish will be the cause of an early derailment of UK-EU talks or whether some suitably murky stew of a deal can be worked out.

## All are equally unwelcome by the fish

Not that the fish themselves care a damn whose flag is flying on the trawlers destroying their populations and their habitats. As far as they are concerned, all are doubtless equally unwelcome.

To stress the point of political rather than economic drivers, 66 percent of wealth managers surveyed by UBS said that financial markets are now driven more by geopolitics than by economic fundamentals.

Percentage of wealth managers who believe financial markets are driven by politics rather than economics



## In the end, it's all political

It all reminds me of a friend who related the story of an economist who resigned from Canada's international trade department declaring himself fed up of being forced to construct economic models that showed some kind of economic benefit from trade deals that had already been politically decided.

### EASIER SAID THAN DONE

The World Bank has issued instructions as to how countries should improve their economies:

## Just do it. Should be no problem.

*"pursue decisive reforms to bolster governance and business climate, improve tax policy, promote trade integration, and rekindle productivity growth, all while protecting vulnerable groups"*

*As quoted in the Financial Times*

Surely shouldn't take too long to get that done.

### US-CHINA DEAL - POLITICAL STICKING PLASTER?

## Is progressive decoupling of the US and Chinese economies on the cards?

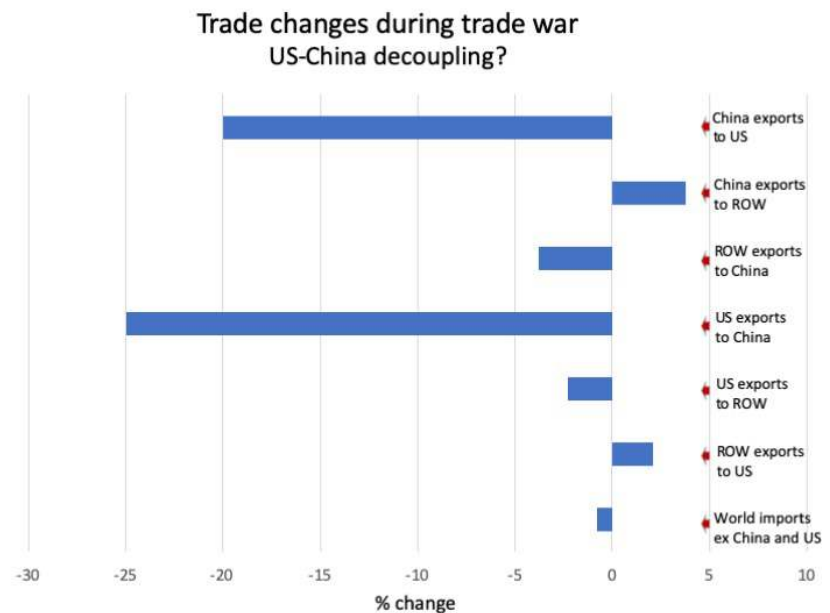
China did not follow through on its threat that the US Senate's condemnation of the goings on in Hong Kong could derail the Phase I US-China trade deal. A deal has been duly signed.

Commentators have argued that the deal is largely an empty one that does not do much to restore US-China trade relations. But it is a useful political fig leaf for both sides.

President Trump can enter an election year pointing to how his hardball approach has been successful, while China can claim it has successfully resisted US pressure.

Longer term, it seems probable that the US and China will continue their war of attrition.

The following figure shows the percentage change in trade flows during the trade war to date. They suggest that a progressive decoupling of the US and Chinese economies may be on the cards.



Source: RADIX graphic. Data from Oxford Economics

## INTELLECTUAL PROPERTY

**China will start respecting intellectual property rights when it is in its own self-interest to do so**

One area where there is some evidence of movement is in China's seeming willingness to start considering intellectual property rights more seriously.

This was to be expected as China is now reaching the stage where it is starting to accumulate its own intellectual property and therefore has a self-interest in starting to play by IP protection rules.

The questions are timing and reliability:

- When will China feel it is generating sufficient IP to make it worthwhile playing by the rules?
- Given China's long history of saying one thing and doing another, when can its words on IP protection start to be trusted?

**When does data sovereignty turn into unwelcome data fragmentation?**

**DATA SOVEREIGNTY**

The EU is becoming more concerned about 'data sovereignty' opening up a new front in fraying US-EU relationships. Once again, this is a political rather than economic issue. Some might see this purely as a matter of efficiency based on comparative advantage. Politically, it is something altogether different.

Both Chancellor Merkel and President Macron have been making noises about Europe being left behind in data storage and processing. Gaia-X – a European cloud infrastructure initiative which, reportedly, has signed up 40 companies – has been launched.

Business groups are not necessarily keen on initiatives that would involve fragmentation of their data hoards.

**France defends its Gallic heritage**

**GLOBALISATION? YES – BUT ONLY SO FAR AND NO FURTHER**

France has demanded that Netflix spend 25% of its French revenues (up from an initial opening gambit of 16%) on producing Gallic programming to counter the spread of Anglo-Saxon culture.

The company declared surprise that the required investment figure had increased substantially.

As it happens, I was recently playing squash with a French national who is responsible for Netflix commercial operations in Europe. He took me through his journey of having to explain these developments to his bewildered American masters. All quite amusing.

This is all reminiscent of past years when, for instance, pharmaceutical companies had to promise they would set up manufacturing facilities in France before their products would be reimbursed by the French social security system.

Or when the Institut Pasteur threatened to stop French language publication of its scientific journal for lack of demand. They received further government subsidy to sustain publication.

This development highlights, once again, how globalisation has come to be seen as threatening to national identity – and nobody would describe the Macron government as an extremist, nationalist administration.

**It would be a mistake with potentially tragic consequences**

In our March 2019 edition of this Globalisation Outlook, we put it like this:

if globalists were to continue to ignore the importance of national identity

"Identity politics is the consequence of groups feeling marginalized or excluded. Parts of their identity are suppressed, given lesser rights, or ignored by social norms.

We may believe that, until relatively recently, none of this applied to national identity. That is not the case.

As far back as 1907, Friedrich Meinecke explored the writings of German intellectuals from the Enlightenment until the late 19th century. He showed how the rise of German nationalism was intimately intertwined with a form of cosmopolitanism.

But we seemed to have learned nothing from it. We have kept pushing an ethic of globalism to the point where many feel that their national identity is under threat."

**RADIX Globalisation Outlook, March 2019**

## **BREXIT – IS IT REALLY TAKING BACK CONTROL?**

In a recent article on our RADIX web site, Leighton Andrews, Professor of Practice in Public Service Leadership and Innovation at Cardiff Business School argues that:

*"Leaving the EU means crashing out of a multinational polity which has been prepared to take tough action against the tech giants, with serious fines being levied on Facebook and Google. At the end of 2018, the Irish Data Protection Regulator – responsible for overseeing the regulation of Facebook across the EU said it had ten investigations of Facebook and its subsidiaries underway.*

*But after leaving the EU, the UK will be scrabbling round for trade deals in a very weak position. And the United States, where most of the big tech companies are based, sees technology regulation and taxation as discrimination against its domestic companies."*

We shall see how all that pans out.

The only concrete evidence we have so far is that the UK has defied US pressure and allowed Huawei into its 5G network.

## **CORONAVIRUS**

Viruses are true globalists – they know no borders, they do not discriminate by race, religion, gender or anything else. They comfortably infect citizens of everywhere.

**Have our complex but inflexible global supply chains made economies stronger or less resilient?**

In all this they put the proudest members of the 'liberal, cosmopolitan elite' to shame.

The coronavirus outbreak has led to closed borders, travel restrictions, a hit to trade, to the Chinese economy, and possibly to global growth.

My son tells me that he now doesn't want to order anything from Ali Express – his previously favourite source of low-cost consumption.

We'll have to see how long all this lasts and how many lives will be lost.

One is led to ask: has all this global interdependence and complex but difficult to change supply chains made our global economic system stronger or has it made it less resilient to these sorts of unpredictable events?

It's all rather ironic. An infection that has all the hallmarks of potentially unlimited globalization putting globalization itself into reverse. Is there some lesson in that I wonder?



**About RADIX**

RADIX is a non-aligned think tank for the radical centre of contemporary politics. Its aim is to re-imagine the way government, institutions and societies function based on open-source, participative citizenship. To kick-start the thinking that is needed for politics to embrace technology, innovation, social and cultural change.

Contact: [hello@radix.org.uk](mailto:hello@radix.org.uk) [www.radixuk.org](http://www.radixuk.org)

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