



# GLOBALISATION OUTLOOK

by Joe Zammit-Lucia

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*Who will make and who will lose money in an age where political prediction has become a mug's game?*



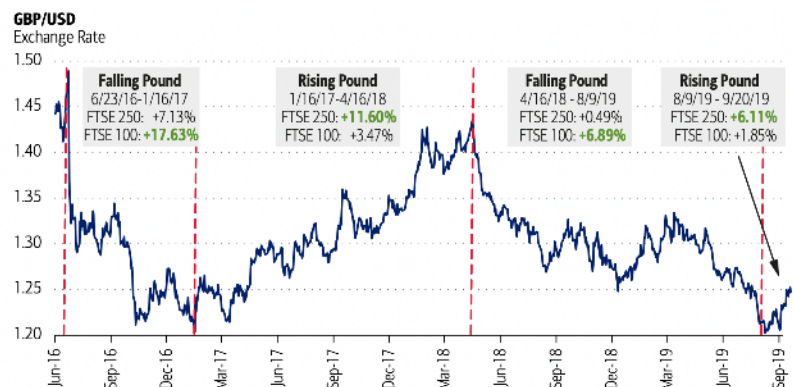
## MARKETS REACT TO EVERY TWIST AND TURN

Can the proposed UK – EU deal get through parliament? Will there be a confirmatory referendum?

Will the US and China strike a limited trade deal? Do the negotiators even emerge from the same meeting with a common understanding?

These are unanswerable questions. Yet everyone takes a view. A view that seems to change by the hour. The consequence has been volatility in equity and currency markets with every news titbit that hits cyberspace.

**Exhibit 1: Falling Pound Favors More Internationally-Exposed Companies**



The FTSE 100 Index represents the 100 largest companies listed on the London Stock Exchange. These tend to be more internationally focused. The FTSE 250 consists of the 101st to 350th largest companies listed on the London Stock Exchange. These companies tend to have less foreign exposure than the FTSE 100. Source: Bloomberg, total returns. Data as of September 20, 2019. **Past performance is no guarantee of future results.** Performance would differ if a different time period was displayed. Short-term performance shown to illustrate more recent trend.

Source: Merrill Investment Insights, September 2019

Every trade in the market involves a buyer and a seller – and each one of them believes they are right. It remains to be seen whose bet makes money and whose does not at a time when political prediction has become a mug's game.

The risks of such unpredictability were echoed by BoE Governor Mark Carney<sup>1</sup>: *"What we care about is that the core of the system, the big banks, are not making a big bet on [currency markets] and they can't be caught out going wrong."*

## US-EU RELATIONS

*First strike to the US on Airbus subsidies*

Following the WTO judgement against EU subsidies to Airbus, there are some fears of renewed US-EU hostilities on trade.

*Who will win the second strike – Boeing's defense contracts?*

The judgement gives the US the right to slap punitive tariffs on \$7.5bn (£6.1bn) worth of goods from the European Union over illegal subsidies to Airbus.

Wine, luxury goods such as handbags and aircraft parts from the EU could be hit by tariffs up to 100 per cent.

*"We are seeing European stocks hit hard in anticipation of a widening rift between the US and EU, leading to a similar tit-for-tat trade war,"*

**Joshua Mahony**  
Senior market analyst at online trader IG.

The US has started to impose tariffs – we wait to see the extent to which this will go. Will the EU react or wait for the judgement on Boeing defense contracts that are alleged to represent illegal state aid?

## CAN THINGS ONLY GET WORSE POST TRUMP?

*Senator Warren: job losses in the US are not driven by automation, they are driven by open trade*

Anyone who watched the Democrat presidential candidates' debate this week could be forgiven for starting to believe that international trade is much better off with President Trump in the White House rather than any of the Democrat candidates.

Senator Warren set the scene with an all-out attack on multinational companies that have no loyalty to place and her intention to bring them to heel in any future trade agreements. The general mood of the debate seemed to be to seek to strike trade agreements that were 'in the interests of workers rather than employers.' No candidate dissented from that view.

<sup>1</sup> <https://www.ft.com/content/2c12bda0-ef33-11e9-bfa4-b25f11f42901>

Warren further claimed that job losses were a direct result of open and poorly regulated trade and had little to do with increasing automation.

The debate put me in mind of the words from a friend originally from Venezuela: *“In Venezuela we used to say things could not possibly get any worse. Then we got Chavez. Then we got Maduro.”*

## THE INSOLUBLE PROBLEM OF THE IRISH BORDER

*We all have to accept that there is no clean solution to the Irish border following Brexit*

We have recently published an article<sup>2</sup> on the issues surrounding the Irish border. The main conclusions:

- The Good Friday Agreement was only possible because the UK was part of the EU at the time
- This allowed the people of Northern Ireland a Freedom of Identity – they could choose to feel Irish or British or both as trade and movement of people was seamless in both directions
- If the UK exits the EU, such Freedom of Identity become simply impossible. Either the nationalists or the loyalists, or both, will have to give something up
- This is an insoluble problem no matter how long it is discussed
- The only question is whether any settlement will affect both communities symmetrically, or advantage one as opposed to the other – as the current proposed deal does.
- If the latter, it is difficult to see how a settlement can hold

## ART AND FREE TRADE

*Art exhibit shows the benefits of cross-fertilisation of ideas through trade...*

*...while also warning about some of the issues*

On a lighter note, the Peabody Essex Museum in Salem, MA is running an exhibit on the trade of art objects between Asia and the West. The exhibit comments on how *“these objects connected societies and created a complex global economy that continues to shape our world to this day.”* It also shows the benefits to be had from cross fertilization:

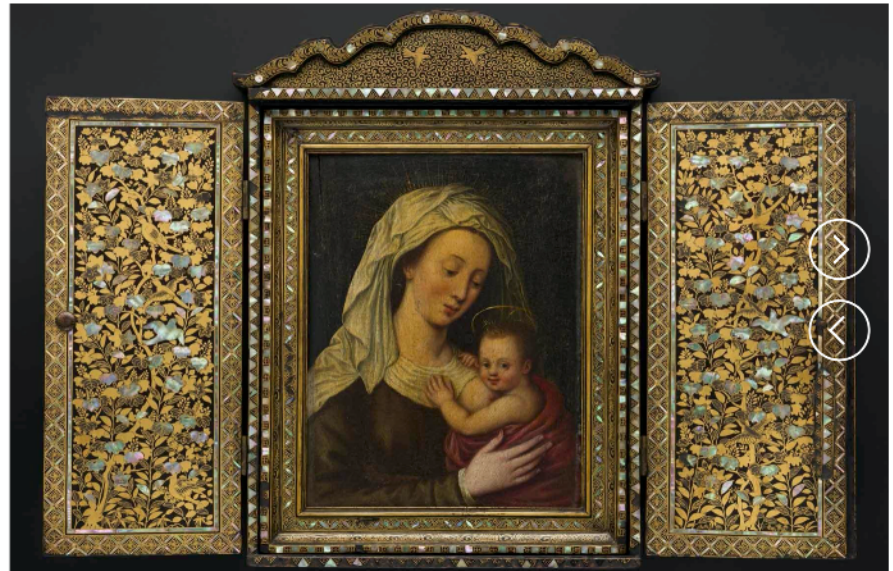
*“[The exhibit] explores cross-cultural exchange as a catalyst for creativity and celebrates the interplay of commerce and creative expression...”*

*These transcultural objects demonstrate the beauty and ingenuity that can be created through blending artistic traditions, materials, and technologies.*

<sup>2</sup> <https://radixuk.org/press/the-northern-ireland-brexit-impasse-has-no-solution/>



The portable shrine (c. 1597) shown below is an example of Western iconography enveloped in Japanese lacquer work.



The exhibit does not, however, pull its punches in pointing out the perils of trade as well as its benefits. It reminds viewers that *“many of these works of art were originally purchased with profits derived from the opium trade. During the 1800s, millions of Indian and Chinese lives were devastated by opium, a foreshadowing of today’s opioid crisis.”*

The slave trade was another example of open trade.

*In trying to find a new trade settlement, we may be wise to keep Keynes’s words in mind*

In trying to find a new free trade settlement (the old one seems to have broken down, possibly irretrievably) it is worth reminding ourselves that every good can also bring evils. Keynes’s words from the 1930s on how to manage trade seem to have been forgotten in the rush towards all-encompassing and unfettered globalization. It may be time to keep them in mind once again.

*“I sympathise, therefore, with those who would minimize, rather than those who would maximise, economic entanglement among nations.*

*Ideas, knowledge, science, hospitality, travel – these are things which should of their nature be international.*

*But let goods be homespun whenever it is reasonably and conceivably possible, and above all, let finance be primarily national.*

*Yet, at the same time, those who seek to disembarrass a country of its entanglements should be very slow and wary. It should not be a matter of tearing up roots but of slowly training a plant to grow in a different direction.”*

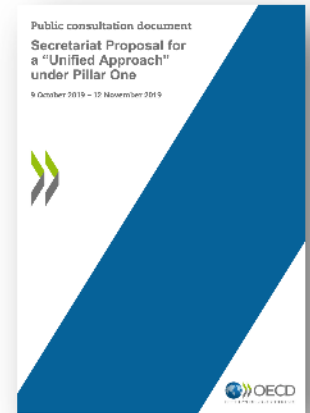
**John Maynard Keynes, 1933**

*OECD releases consultation document to shift taxation to where revenues are generated*

Industrial scale tax arbitrage is possibly one of the most corrosive aspects of globalization.

Some countries, such as the UK and France, have proposed unilateral measures until a new global settlement is reached.

The OECD has now released a public consultation document<sup>3</sup> proposing to address the issue. The aim is to ensure that highly profitable large transnational enterprises (TNEs), including digital companies, pay tax wherever they generate profits from significant 'consumer-facing activities'. It represents a shift towards taxation being more aligned with where goods and services are consumed and where, therefore, revenue is generated.



Getting wide agreement on these developing proposals will be far from smooth. The OECD is hoping to gain the support of larger economies that have most to gain from such proposals at the expense of small tax havens.

Inevitably, this has led to criticism that the proposals disadvantage developing nations and questions whether the OECD is, therefore, the appropriate organization to be entrusted with this task.

Expect much argument over the coming months – or maybe even years?

### WHAT IS THE REAL IMPACT OF TRADE DEALS ON THE ECONOMY?

*Are free trade agreements all they are cracked up to be?*

In a rare bout of honesty, the ex-UK Chancellor Philip Hammond admitted the limited value the UK would gain from striking free trade deals – certainly insufficient to make up for the losses from Brexit.

*"We all know these trade deals are of very limited potential value and likely to be very hard to negotiate without serious domestic economic and political consequences."*

**Philip Hammond**

The Telegraph has reported that estimates by the Treasury and the National Institute of Economic and Social Research calculate that signing

<sup>3</sup> <https://www.oecd.org/tax/beps/public-consultation-document-secretariat-proposal-unified-approach-pillar-one.pdf>

trade deals with all the English-speaking countries, including the United States, as well as the so-called BRICS emerging market economies, would increase GDP by less than 0.2-0.4 per cent by 2030.

Similar conclusions on the relatively limited value of new trade deals are widely shared. Though the value of new trade deals is a different thing from throwing up new trade barriers that did not exist.

#### 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.

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