The Lacey Lectures

# MEGATRENDS

# Implications for International Trade and Investment

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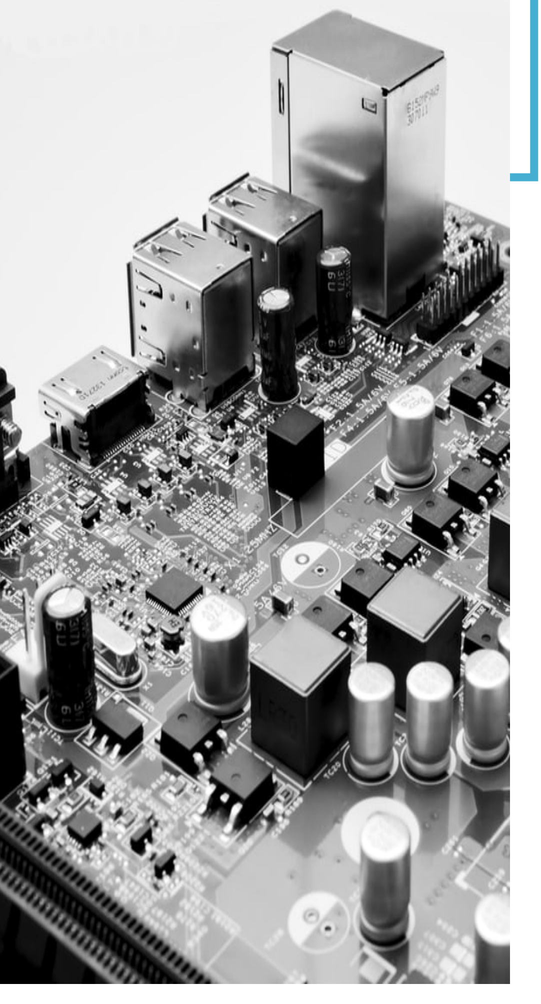

# Overview

1. **Geopolitical Tensions**
   Heightened antagonism between regional and geopolitical rivals

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3. **The Pareto Power Law**
   Asymmetries between “winners” and “losers” creating societal tensions

# Geopolitical Tensions

### Geopolitical tensions are here to stay

The geopolitical tensions we are experiencing are not going away anytime soon and that will probably persist over many decades, not just between the US and China but also other large regional powers, particularly India and Japan, both of which feel various levels of concern about a rapidly rising and more assertive China on their doorsteps.

### Low-intensity/"Grey-Zone" conflict likely to endure

Because with the exception of Japan, these are all nuclear powers, all of these actors have a strong incentive to avoid escalation and thus to keep any tensions simmering at the level of so-called low-intensity or "grey zone" area conflict, meaning restricted to cyberspace, the economic and monetary sphere and/or the battle over who dominates the narrative i.e. propaganda.

### Autarky in technology will limit international collaboration

Another important facet of these geopolitical tensions is that the rise in techo-nationalism and thus autarkic strategies in advanced technologies, will likely grow and, someone sadly, will also limit international collaboration and thus ultimately, innovation.

### Continued international cooperation to trump decoupling

The benefits of international cooperation and economic integration over the last seventy years have been so great and that the financial incentives underpinning this trend are still very much in place, so that these incentives will ultimately trump or at least limit the extent to which decoupling will be allowed to go.

**01** Ramping up of restrictions on cross border data flows

**02** Expanding restrictions on strategic components

**03** Increased recourse to national security exception

**04** Growing use of investment screening procedures

# Known Unknowns

### Blockchain technology set to disrupt many fields

Blockchain already starting to be adopted in finance and logistics, and the number of potential use cases run into the hundreds, if not thousands. But as yet, the broad-based adoption of this technology remains elusive, beyond cryptocurrencies.

### Quantum computing's impact still unknown

Likewise quantum computing is another technology rapidly growing in prominence, with China reputed to have a small lead over the US, but here again, apart from disrupting encryption of secure communications, it's not clear what potential this technology will have. However, most experts concede it will be a real game changer, turning conventional approaches to computing completely on their heads.

### General-purpose AI will be massively disruptive

Advanced AI is another disruptive general purpose technology that is already starting to have a big impact on the way firms and indeed entire economic sectors work, but again, the full extent of how disruptive this technology will ultimately be is still a matter of speculation by many experts. The only thing they do agree on is that it will be massive.

### LEO economy still waiting for widespread adoption

The Low Earth Economy is a key threshold technology that will be absolutely fundamental to enabling all kinds of low-latency remote wireless technologies, such as autonomous vehicles, but again, experts disagree as to how quickly this technology will become ubiquitous and how far-reaching its impact will ultimately prove.

**01** The real world will continue to stay ahead of the language in trade agreements

**02** Strategic competition and governments' ambitions will limit cooperation and integration

**03** Firms competing in these spaces will need to be big to manage regulatory risks

# The Pareto Power Law

### Technology will continue to exude a winner-take-all-dynamic

In the technology space, we can clearly see the emergency of winner take all dynamics, where the vast majority of the value created in the digital economy is captured by a small number of big platforms.

### Economic integration will continue to create winners and losers

There are glaring problems with the inherently distributive nature of the gains from closer economic integration, with winners and losers suffering vastly different outcomes. Labour market inertia prevents losers from being able to quickly adapt to the new competitive environment and start becoming winners.

### Losers will continue to drive political radicalisation

The losers from globalization quite rightly feel disenfranchised economically and have started to shout the loudest, producing movements and seismic political shocks like the Tea Party, Occupy Wall Street, Brexit and the Trump presidency.

### Efforts at closer economic integration will slow or reverse

All of this creates a broad-based backlash that makes it harder for political leaders to forge ahead with closer economic integration, even if the rationale for doing so, hasn't actually changed: it's still makes good economic sense to do so. But electorates are less willing to concede this point today than they have been perhaps at any time in recent history.

**01** Shrinking constituency for further trade liberalisation

**02** Multilateral solutions to big collective-action problems become harder

**03** The rules-bases system will become increasingly the law of the jungle

**04** Increasing system fragmentation to be the new normal

# Take-Aways

**01** Those who believe in the rules based order must demonstrate the courage of their convictions

It's time to stand up for the rules, and not play favourites on the basis of such nebulous concepts as "like-minded" partners or "values-based" economic diplomacy. History proves that this is just code for justifying discriminating against and between trading partners, which the multilateral trading system was set up to stop.

**02** Sticking with or reverting to the status quo is simply not an option given the massively disruptive forces at play

Countries, firms and individuals need to learn to adapt to a fast-changing reality, and those who can do this, i.e. those who prove the most agile and resilient, are going to be the most successful.

**03** The COVID-19 pandemic has been a big stress-test for governments and has shown the value of basic bureaucratic competency

The various phases of the covid-19 pandemic to date (i.e. the initial health crisis of 2020 and the logistical and other challenges of the vaccine rollout in 2021) have demonstrated the value of basic bureaucratic competency. Those countries that weathered these challenges the best stand to make the biggest gains during and after the post-Covid recovery.