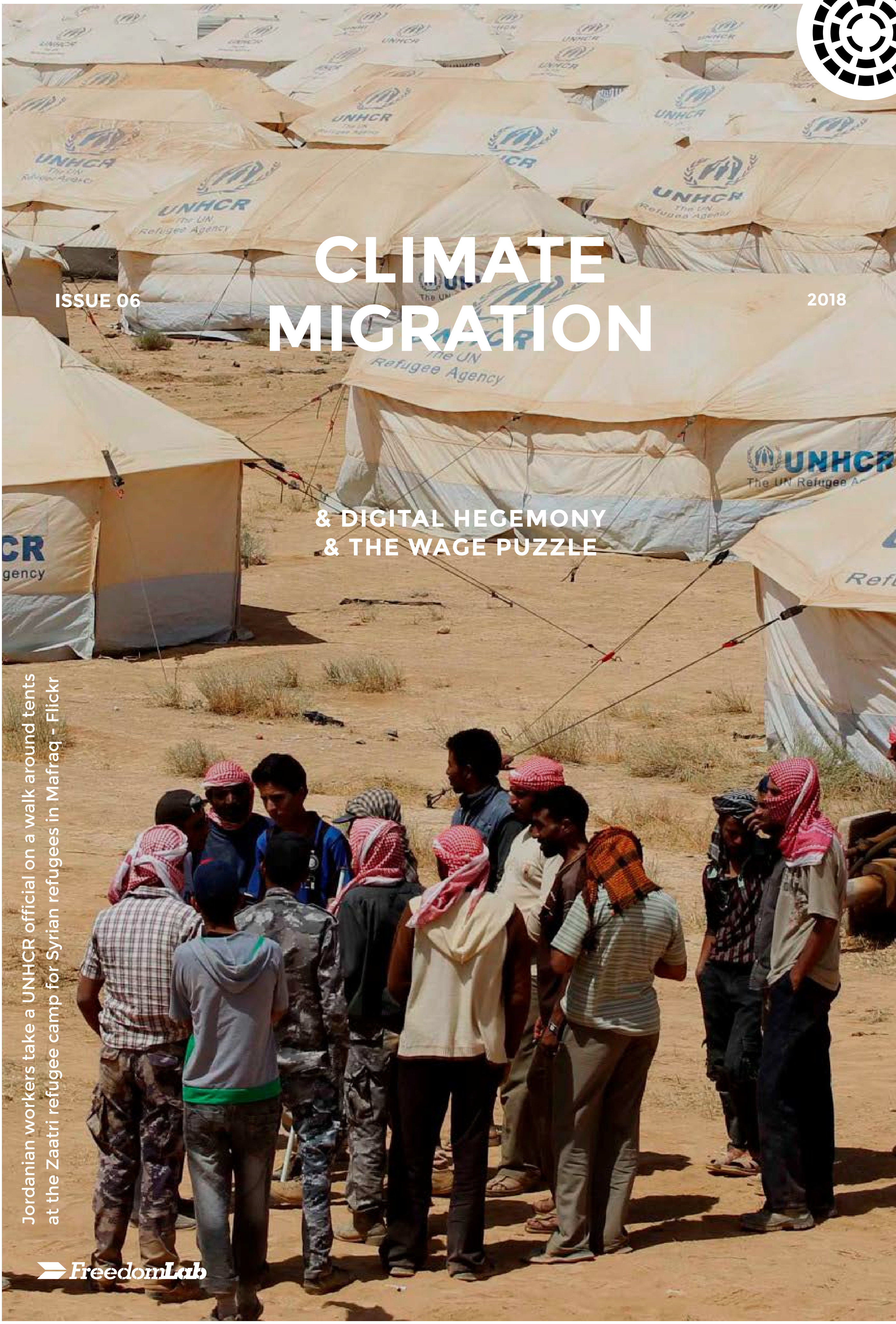
ISSUE 06

2018

CLIMATE MIGRATION

& DIGITAL HEGEMONY & THE WAGE PUZZLE



Jordanian workers take a UNHCR official on a walk around tents at the Zaatri refugee camp for Syrian refugees in Mafraq - Flickr

FreedomLab

Photo by Freedom House on Flickr.

1. Climate migration

Austria plans to take a hard line on asylum applications when it takes over the bloc's rotating presidency on July 1. Tensions between German Chancellor Angela Merkel's Christian Democratic Union party and coalition partner the Christian Social Union, chaired by Seehofer, have been brewing over Merkel's immigration policies since 2015 and reached a new high in June. Furthermore, Geopolitical Futures **concludes** that the three largest and most important countries in the European Union – Germany, Italy and France – are divided, internally and externally, over the immigration question. The leaders of Germany and France recently met in an emergency **mini-summit** on migration to hold talks on how to tackle the immigration issue, but no concrete measures have resulted from this. Italy and Austria joined the four Visegrád countries, Hungary, Poland, Slovakia and the Czech Republic, in boycotting the mini-summit. Although there has been a sharp decrease in migrant arrivals since the peak in 2015, the question of how to deal with the influx of migrants to Europe remains unanswered and seems to further contribute to the European rift, as we noted in the Risk Radar of February this year. Furthermore, we wrote about the further divide of Europe into regional blocs, a southern bloc led by France, a northern bloc led by Germany and a more eastern bloc led by Poland as the Visegrád group's leading country.

Moreover, a recent **World Bank report** announced that the current migration crisis resulting in political tensions all over the world could only be the tip of the iceberg. The report concludes that in future, climate change will drive human migration more than other events. Escaping crop failure, water scarcity, and sea-level rises will lead to population shifts mostly in Sub-Saharan Africa, South Asia, and Latin America. These three risk domains represent 55% of the developing world's populations. "We have a small window now, before the effects of climate change deepen, to prepare the ground for this new reality", Kristalina Georgieva, World Bank's chief executive officer, said in a statement. Without actions against climate change, climate migration will most likely keep rising until 2050. Last year, natural disasters already forced over 18 million people out of their homes in 135 countries, according to a **global report** released by Geneva-based Internal Displacement Monitoring Centre (IDMC). It further shows that floods and storms resulted in major displacements, mostly in China, the Philippines, Cuba and the U.S. It also projects that Bangladesh, India and Pakistan are in the top ten highest-risk countries of displacement due to sudden weather events and Sub-Saharan Africa and Pacific regions are high-risk areas for slow climate change impacts such as sea level rise, desertification and salinization. However, "No country is immune to climate change impacts anymore", says Sanjay Vashist, director of Climate Action Network South Asia.

With growing awareness of the causes and effects of migration, more than 500 academics have called for a science-based approach to policies on immigration and the creation of an **International Panel on Migration and Asylum.**

RISKS MARKED ON THE RISK RADAR AS NUMBER 1:
LARGE-SCALE MIGRATION, AFRICAN TERRORISM

2. Digital hegemony

In March this year, the Trump administration blocked the acquisition of Qualcomm by Broadcom due to risks to national security as it could provide a competitive advantage to Chinese chip manufacturers in the 5G industry. A month later, the Trump administration banned U.S. companies from exporting products (such as semiconductor technology) to Chinese telecommunications manufacturer ZTE. While the U.S. has not been hesitant to raise tariffs on Chinese tech, there was no reluctance on China's part to retaliate against proposed tariffs with their own tariffs, and the proposed date of the tariffs on U.S. goods is at hand: the 6th of July. China and the U.S. are not only moving closer to a trade war, more specifically, they are moving towards a tech war.

This battle is about the concentration of capital and technological power in the world. The digital economy is currently organized around just two centers of gravity: the U.S. West Coast and the east coast of China. These gold coasts are home to nine of the top ten, and 18 of the top 20 internet companies, as measured by market capitalization. As the Atlas of Digital Hegemony shows, companies from these regions virtually dominate in every domain of the digital economy, such as e-commerce, online search, mobile, AI, unicorns and VC funding. And because of this, the battle for **digital hegemony** is largely between China and the U.S., which are virtually leading in all new development and deployment of next-gen technologies relating to our theme "sensor-based economy": AI, 5G, quantum computers and nanotechnology. Thus, the stakes in the looming trade war between the U.S. and China are high: the U.S. risks losing technological and digital hegemony, adding an explicitly geopolitical element.

A recent NYT article, however, argued that Chinese big tech companies are already beating their American counterparts. This is supported by the Chinese government. Chinese President Xi Jinping outlined an updated vision for China's future as an internet and technology power, pledging more state support for sectors caught in the crossfire of a trade war with the U.S. This is remarkable, given that China is increasingly setting industrial standards. The central strategic document is "Made in China 2025", in which China sets itself the target of becoming largely self-sufficient by 2025. However, as we have **written** before, China faces considerable challenges with respect to digital independence. Even though China has been able to become largely self-reliant in technology domains such as online platforms (e.g. social media, e-commerce) and AI, it still largely depends on the U.S. when it comes to its supply of semiconductors, a key enabler for any computational endeavor. The semiconductor industry could increasingly face interference from government as the Chinese semiconductor industry becomes more competitive, resulting in an arms race when strategic motivations become leading.

As the trade war and tech war between the U.S. and China intensifies, other nations will be left behind in technological development as they cannot equal the superpowers in force. As we wrote in last month's Risk Radar, while other countries have ramped up their investments in technology such as AI, the focus is mostly on the duopoly of the U.S. and China. As tensions between the two leading nations increase, this will disadvantage those who are lagging behind in new development and deployment of next-gen technologies, both economically and on a security-level.

RISKS MARKED ON THE RISK RADAR AS NUMBER 2:
AI ARMS RACE, TRADE WAR

Shenzen High-Tech Industrial Park - Wikimedia Commons

3. The wage puzzle

The puzzle of economic expansion since the 2007 financial crisis is why wage growth has remained so sluggish in recent years, even though growth is accelerating and the labor market has tightened. For example, the U.S. labor market is very tight, with **unemployment** at historically low levels and, for the first time, more **job openings** than unemployed Americans who could fill them. However, **wage growth** has remained sluggish and below historical levels during times of expansion. Using data from the **Federal Reserve Bank of St. Louis,** we find that (monthly) personal income growth since the last recession is significantly slower (at the 0.05 significance level) compared to previous expansions since 1961. The same is happening in **Japan** and the **Eurozone**, where economic growth is accelerating and unemployment is declining without growing wages.

Why is stagnant wage growth a problem? First of all, when workers earn less, households have less disposable income to spend (on consumer discretionary goods). And as household consumption expenditures make up about **60% of GDP** in advanced economies, slowing wage growth has a significant impact on economic growth. Without rising aggregate demand, economies might end up in what Christine Lagarde has called the **"new mediocre"** trap, meaning a slow and fragile economic recovery that barely benefits lower-income and middle class consumers, thereby reinforcing itself by means of its negative effect on aggregate demand and potential output. Furthermore, slow wage growth hinders monetary policy, as it is an important **determinant of inflation.** With the sluggish wage growth, central banks' prolonged attempts to lower interest rates and monetary expansion to stimulate inflation (quantitative easing) have not had their predicted effect, which creates significant financial risks in itself, such as debt accumulation or creating bubbles at financial and capital markets (e.g. housing market). Furthermore, lower wages and household incomes indirectly limit governments' ability to pursue countercyclical economic policy, as income and payroll taxes and VAT on consumer products constitute the most significant part of **government revenues.**

Besides economic consequences, low wage growth has significant social effects. The first is that it increases inequality. With respect to income inequality, we see that current deceleration in wage growth in advanced economies has concentrated at the lower percentiles of the income distribution (see figure). That means that high-income jobs have continued to see rising wages, while those at the bottom see increasing risk to slide into poverty or remain stuck at low-income levels. Rising **income inequality** and declining **socio-economic mobility** lead to other social problems, such as **crime,** mental health problems (e.g. **stress**), **unhealthy lifestyles,** and deterioration of general **wellbeing**. Furthermore, as wage growth is decelerating while economic growth is accelerating, the **labor share** is decreasing as a share of GDP. These developments follow the analysis of Thomas Piketty in his 2014 Capital in the 21st Century, as **wealth inequality** is on the rise in most advanced economies.

In the political domain, increased inequality, both in income and wealth, lower social mobility and feelings of social angst and insecurity have fueled the rise of populism in many developed countries. Besides strong nationalist rhetoric, most populists combine right-wing identity politics with left-wing socialist policies. German **Alternative für Deutschland**, the Dutch **Partij voor de Vrijheid**, France's **Front National**, or Italy's **Five Star Movement** all have a left-wing, socialist economic agenda, while the "Leave" camp in the **Brexit** referendum and Trump's "America first" both attracted a large voter base in the lower working classes, which have seen stagnant wage growth and angst about their economic position. With recession looming again after an already relatively long period of expansion but with sluggish wage growth, these problems might exacerbate in the coming years.

RISKS MARKED ON THE RISK RADAR AS NUMBER 3:
RISING INEQUALITY

Photo by Pixabay

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RISK RADAR
EUROPE

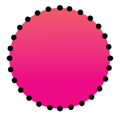
JUNE 2018

The potential political, sociological, economic and technological threats.

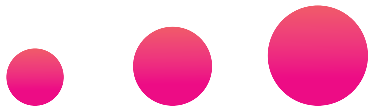
PRIORITY OF RISK

Is a determination of the likelihood of occurrence and the estimated impact.

NEW RISK

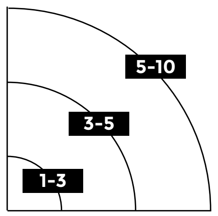


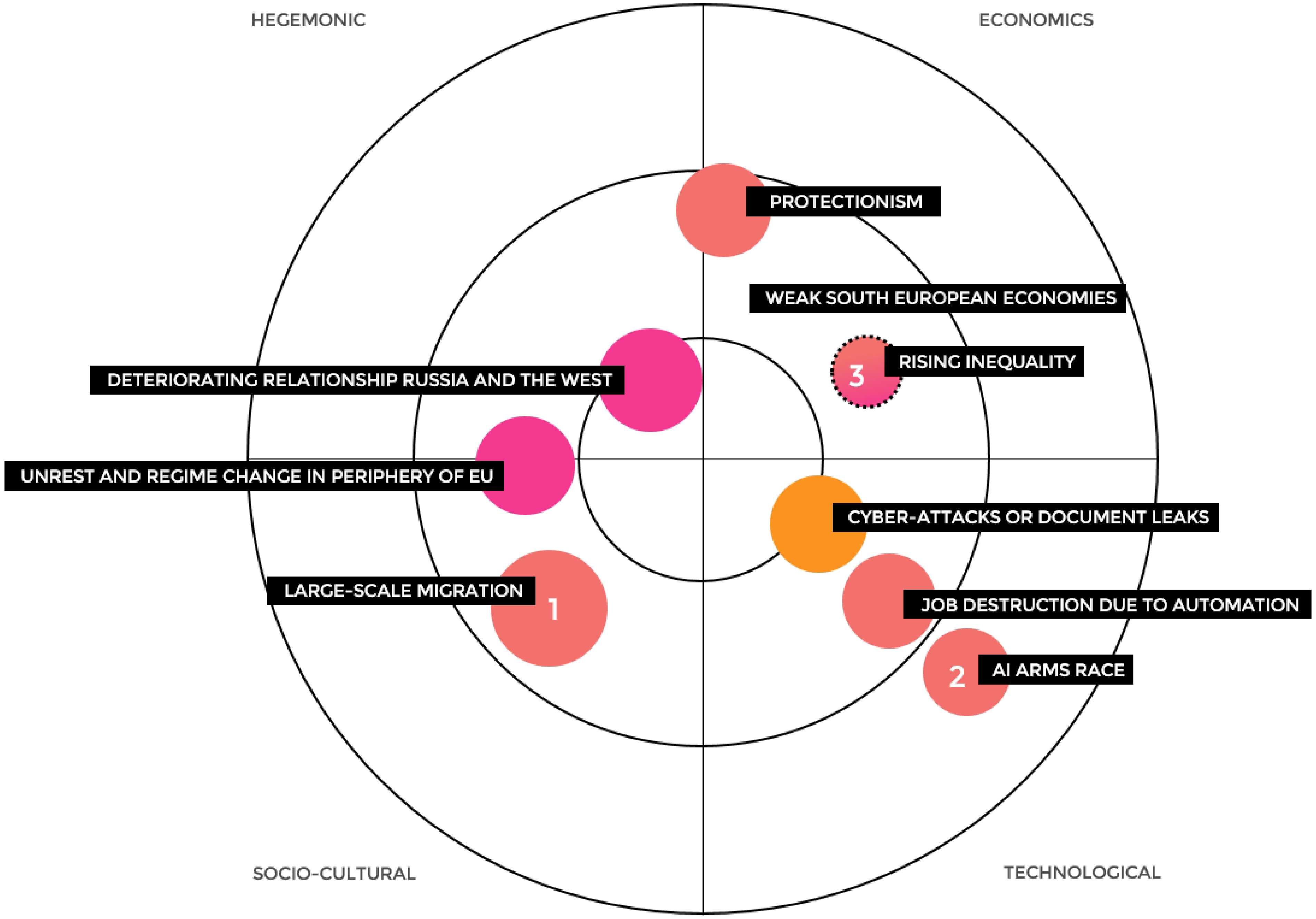
ESTIMATED IMPACT



LIKELYHOOD OCCURENCE

TIME HORIZON (IN YEARS)





KEY RISK SHIFTS

1. Climate migration
2. Digital hegemony
3. The Wage puzzle

OTHER TOP EUROPE RISKS

- Weak Southern European Economies
- Eastern European slow implosion
- Cyber-attacks or document leaks
- Chinese / other EM's economic slowdown
- Policy uncertainty
- Friction over Arctic Sea
- Declining internet freedom
- Anti-establishment parties come to power
- Terrorism
- Secular stagnation
- Global debt glut
- Digital Infrastructure Failures
- Ageing population
- Exits from the EU

RISK RADAR
WORLD

JUNE 2018

The potential political, sociological, economic and technological threats.

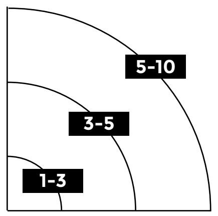
PRIORITY OF RISK

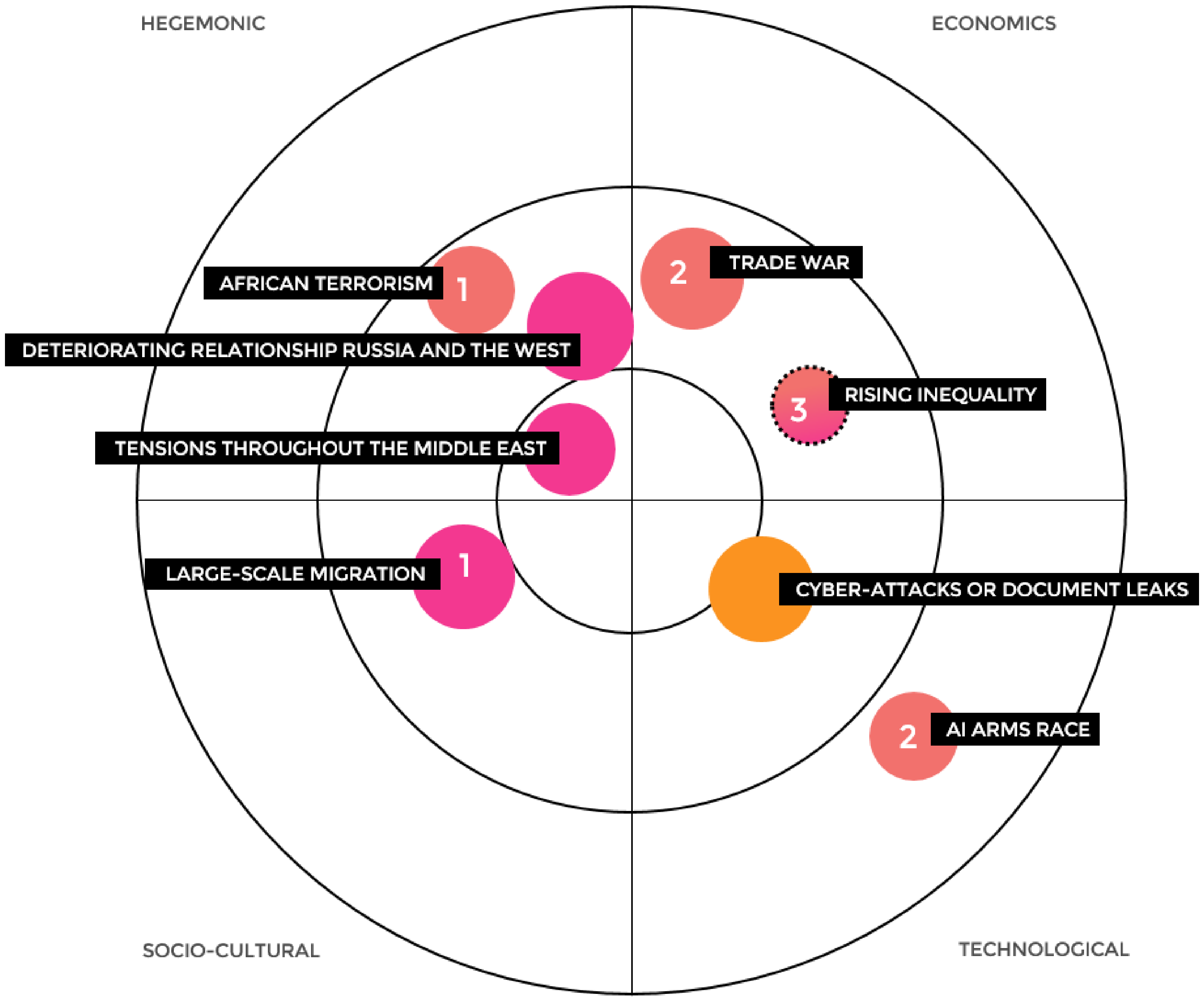
NEW RISK

ESTIMATED IMPACT

LIKELYHOOD OCCURENCE

TIME HORIZON (IN YEARS)





KEY RISK SHIFTS

1. Climate migration
2. Digital hegemony
3. The Wage puzzle

OTHER TOP WORLD RISKS

- Unrest in South Asia
- Financial Risk Emerging markets
- Implosion North Korean State
- Chinese / other EM's economic slowdown
- Water crises
- Territorial disputes South China Sea
- Friction over Arctic Sea
- Protectionism
- Declining internet freedom
- Terrorism
- Global debt glut
- Continuing slow growth OECD-countries
- Digital infrastructure failures
- Spread of infectious disease
- Climate change / natural disasters

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INTERNAL SOURCES

Filtering Hegemonic Shifts
The Macroscope

EXTERNAL SOURCES

Atlas of Digital Hegemony
Bloomberg
CNET
Deutsche Welle
Foreign Policy
Financial Times
IMF
London School of Economics
National Geographic
New York Times
OECD
Science Direct
South China Morning Post
The Conversation
The Economist
The Guardian
The National Bureau of Economic Research
Washington Post
Wall Street Journal
World Bank