insight.

GLOBAL TRADE

Letter from the Editor-in-Chief

Welcome to the 17th biannual issue of Insight!

A number of forces were in play for us when choosing the theme for this semester's issue of insight. There was the necessary inclusion of our GAE trip reports, and the increased global spotlight on trade policy. In an era that seems to be characterized by rising nationalism and protectionism, it is important to contiue looking ahead at our globalised world.

As we look back and consider the development of trade over time, the largesse of effects that trade has on our society becomes obvious. From sushi to international policy and even healthcare our lives are built by these global forces, and most importantly it is our decisions that create them.

Many thanks to our writers, the insight team, and the School of Economics for making this issue come to life.

All the best,

Flora Mao
November 2018

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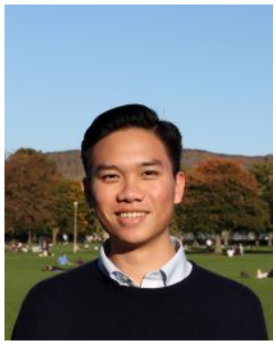

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Dispatches

The Go Abroad Economics originated in February 2015, when a group of staff and students embarked on the inaugural trip to Dubai. The scheme is built around the value of hands-on learning about economics, and it allows students to apply their knowledge and curiosity to real-life issues. Students are largely responsible for organizing the trips, including visits to businesses, political offices and national institutions. These trips provide students with a global perspective on economics and give them opportunities to put their skills into practice. Over the past few months, students have had the opportunity to travel to a variety of places.

This section features reports from the most recent GAE trips. Olivia Nyikos describes the trip to Peru. Michal Solcansky looks back at the trip to Morocco. Elizabeth Dietz reminisces about the trip to Mexico.

Peru

Incas, Alpacas & Potatoes

Olivia Nyikos reminisces about the Go Abroad Economic trip to Peru, land of the Incas.

Each year the School of Economics presents its students with the opportunity to participate on research trips to various destinations across to globe. At the end of May 2018, I was one of 12 students who journeyed to Peru for the Go Abroad Economics trip.

Part of the preparation for the trip consisted of attending weekly meetings where we discussed Peru's economic development and performance, as well as its culture and local attractions. Unlike other fast-growing middle-income countries, Peru's structural change has been slow overall. Despite the increase in the relative size of the services sector since 1990, the composition of GDP and the economy by sector has hardly seen any change. Resulting from the discussions, we were interested in the effects of corruption and informal labour on the economy. We also wanted to observe the rural-urban divide and the infrastructure in Peru.

Yesterday, Today, Tomorrow

After arriving in Peru, we started our trip with a historical tour of Lima. The various neighbourhoods (barrios) each have unique styles of architecture resulting from different periods in Peru's eventful history. Culture surrounded us everywhere, and people we met were incredibly welcoming. Among the most interesting experiences we had in Lima was when by coincidence, we stumbled across a religious parade, where dancers and pipers proceeded down the street in outlandish costumes amid cheerful music.

To provide us with insight into the Peruvian economy, we attended official meetings, ranging from private organisations such as CONFIEP (Confederation of Private Businesses) to the Central Bank and UNESCO office. The Canadian Embassy and Peruvian Central Bank shed light not only on the county's financial market, but also the volatility resulting from frequent and drastic regime changes over the years. As our host at the CB, Julio Velarde, explained, General Alvarado's protectionist regime and Belaunde's more liberal economic policy perfectly display the difficulty institutions such as the central bank face when addressing economic difficulties. Due to unmanageable debt levels and hyperinflation, Peru's economy and people suffered greatly in the late 1980s. From these visits, we learnt that Peru is a prime example of the effects of corruption and trust in the system on financial markets. Our visits to the Peruvian Stock Market Superintendency and the Lima Stock Exchange showed the heterogeneity of the financial market in Latin America. The discussions around Peruvian financial market and trade shed light on how economic history affect foreign investment, especially the memories of inflation, protectionism and debt.

During our meetings we heard various opinions concerning the regimes of the three administrations. This was where the urban-rural divide is most conspicuous. Opinions on the previous political regime and economic liberalisation divide sharply between the rich and powerful, and the poor and international observers. Opportunities to some are often stumbling blocks to others. Our meeting with the head of CONFIEP further confirmed this view.

Progress and Conflict

In Peru, mining activities often lead to displacement of livelihood and situations of social tension, which have led to violence and loss of life. The lack of engagement by mining companies with local communities have generated an enduring climate of mistrust. Fortunately, our meeting at the Peruvian energy regulatory body, Osinergmin, answered our questions on the mining conflicts between environmental activists, local communities and mining companies, as well as the importance of gainers compensating losers in zero-sum games. From our visits to Care Peru and Caritas del Peru, we learnt the importance of good infrastructure and education in reducing income disparities and progressing beyond the poverty trap. However, making a difference is never as easy as it seems.

Progress and Ancient Wonders

On the 2nd of June, we flew to Cuzco to learn more about the land of the Incas. The ruins of the historic capital of the Inca Empire from the 13th century became the foundation for the Spanish architecture we see today. For example, Cuzco's Cathedral is built on the site where the Inca Wiracocha's palace once stood. The church of Santo Domingo also incorporates the ruins of the Inca site of Coricancha, the Temple of the Sun. Throughout the four days of visiting historical sites, we observed the importance of UNESCO's work to preserve cultural heritage. The organization's work was especially evident when we visited the Sacred Valley of the Incas, Saqsaywaman, Q'Enqo and other remains of the Incan Empire. Our local guide also emphasized the importance of taking care and preserving the most visited tourist destinations in Peru.

With regards to slow growth and political instability that plagued Peru in the past, many see a very positive future. Peru is at a stage where factors that hold back economic development, such as widespread corruption, urban-rural disparities, inadequate infrastructure need to be fully addressed. It is now the younger generation's role to capitalize on the country's many positive qualities and its growth opportunities.

The opportunity to travel to Peru to learn about the country's economy, history and culture was an incredible experience. Our group of economics students will always be able to look back at this trip to Peru with fond memories.

Morocco

In a Land of Contrasts

Michal Solcansky recalls the excitement of the Go Abroad Economics trip to Morocco.

Last year, the School of Economics opened the Go Abroad Trips to first years for the first time. Several freshers took this opportunity and went to Morocco, myself included. The decision to apply was one of the best in my first year. This is a universal sentiment - in a post-trip survey, almost everyone said the trip exceeded their expectations. After all, how can you forget listening to the grand librarian's pickup lines aimed at female trip participants, fighting with French waiters over your tips or returning to Edinburgh during the greatest snowstorm of the decade?

We were not able to schedule visits to private companies and factories around the country, but public and international organizations were more than willing to invite us for a visit. We visited the Norwegian and Polish embassies, UNHCR, two universities, EU representatives and the Moroccan parliament. My favourite visit was to the Bank Al-Maghrib, the Central Bank. During our visit, the bank officials gave an extraordinarily detailed presentation about the Moroccan economy, answered all our questions about the exchange rate and monetary policy and gifted us ornate books. Thanks to moments like this one, Morocco reserves a fond place in our memories.

A One-eyed Economy

'In the land of the blind, the one-eyed man is the king' – an expression that aptly describes Morocco in the context of North Africa. In a region with widespread dictatorships, terrorism and instability, Morocco remains peaceful. Following protests in 2011, the king ceded some power to form a new constitution, transforming Morocco into a constitutional monarchy with multiple political parties. According to the Polish Ambassador, Morocco currently enjoys the highest level of freedom in its history, as seen in the rapid increase of gatherings and rallies in the cities.

In the last few years, the Moroccan economy has been moving away from agriculture and becoming more industrious. In our pre-trip readings, we covered the aeronautics sector. Firms as Boeing, Airbus and Dassault are moving their factories to Morocco, as they can produce at a lower cost and similar distance to Western Europe compared to manufacturing in Eastern Europe. A similar logic underpins the reasoning of Renault and PSA (Peugeot Citroën) for moving large parts of their vehicle production to the country. Moroccans have bigger plans than just luring in industrial giants, though. We read about Casablanca's Finance City, a project aiming to build a large financial centre to serve as a hub to African countries for international investors. We could not visit the factories, but still managed to get a quick glimpse at the Finance City. While most of its buildings were still masked by scaffolding due to delayed construction, it was a sight to see.

Despite this progress, several underlying problems continue to plague the Moroccan economy. Approximately 32 percent of Moroccans are illiterate and the authorities have difficulties enforcing school enrolment laws, particularly in rural areas. There are wide disparities between the largest cities and rural regions, which are becoming more pronounced as the economy grows. Our visits were limited to Rabat, Casablanca and Fes, the largest

> **'his words still echo in my mind. 'I swim in your body, travel in your personality, you and me…'**

cities in Morocco. Hence, our knowledge about regional disparities came from reading and visiting institutes. An interesting observation made was the different attitudes towards headscarves. In the capital city of Rabat, only a minority of women wore headscarves. In contrast, there was not a woman without one in Fes.

The quality of education remains poor and university graduates are the most likely to be unemployed. While technical degree holders can find employment in foreign firms, others are reliant on the government. When visiting the Parliament, we witnessed a protest of graduates who failed to receive employment in the civil service. Many universities are private, charging high tuition fees. We were lucky enough to visit The International University of Rabat, whose new campus could rival our own Business School in terms of sophistication. However, I felt like being in a secondary school when visiting the classrooms – the professor had to shout at the top of his lungs to get his students to quiet down. This would only last a few minutes, after which he had to raise his voice again.

Librarians and Refugees

We spent the first two-thirds of our trip in Rabat, the capital of Morocco. Later, we took a train to Fes. An ancient city and former capital, Fes is renowned for its old town brimming with souks, restaurants and bargains. Every seller showed great persistence, all eager to bargain to the last Dirham for their wares.

Nobody thought that the National Library would be the one to remember, but Mr. Alaoui made sure this was the highlight of all our visits. Being the head librarian, he explained the entire history and architecture of the building as he named all the departments under his management. As he earnestly stated, we were one of the few visitors able to see specific visitor-restricted parts of the library thanks to the elegance of our women on the trip. He was so impressed that he offered to read out excerpts of his poetry for all of us. We agreed, and his words still echo in my mind. 'I swim in your body, travel in your personality, you and me...'

During our visit to the UNHCR office and later the Norwegian and Polish

embassies, we realized the significance of Moroccan migration policy. Being very close to Europe, Morocco is predisposed to become a full-scale migrant route to Europe. Moreover, the cities of Ceuta and Mellila are Spanish territory, even though they are located in Africa. Any immigrant who arrives has the right to apply for EU asylum. Even though Europe is so close, very few migrants manage to cross the border, as Moroccan authorities vigorously fight against illegal migration. This is due to a Morocco-EU agreement, where the EU increases funding for Morocco in exchange for preventing migrant arrivals. While border controls occasionally loosen (especially during diplomatic spats with the EU), the Moroccan system is very efficient, if not a bit cold. The UNHCR office in Morocco serves as the main immigration authority in the country; while visiting, we could see how the process works. Only one interview decides whether the refugee is granted asylum or faces deportation. We left as the 'clients' of the office started to arrive, but to this day I remember the look in their eyes as they stood there before their decisive interview.

Two Worlds

Our return from Morocco turned out to be more difficult than we thought. Due to delays at the runway and passport control, we had to make a run through Stansted to catch the follow-up flight to Edinburgh. The staff members stayed in Morocco for a bit longer and travelled to Marrakesh, much to the envy of the students. Sadly, their plane arrived in the UK at the same time the Beast from the East started raging. Managing to escape being stranded in Stansted, they were nevertheless forced to stay in cold, snowy London with only summer clothes to wear.

Overall, visiting Morocco was like visiting a different world. The difference lies not only in weather and environments, but also attitudes. Polygamy and child labour are unanimously seen as unacceptable in the UK, while Moroccans have mixed views on these issues. Unlike in the UK, Moroccans seem to be cheerful and energetic in their everyday lives, sporting a smile as they freely talk to strangers. Indeed, our visit to Morocco has given memories as hot as its sunshine, and as cheerful as the smiles in the near-infinite souks.

Mexico

City of Palaces

Elisabeth Dietz looks back at the Go Abroad Economics trip to Mexico.

In the last few years, the Go Abroad Economics (GAE) scheme has offered students the chance to learn about economic issues in new contexts. During Innovative Learning Week in February 2018, a group of Edinburgh students and faculty travelled to Mexico City to learn about the Mexican economy. The structure of GAE trips allowed our time in the city to include a mix of cultural and academic events. Before heading to Mexico City, we prepared ourselves by studying and discussing various aspects of the Mexican economy, including issues connected to migration, inflation, crime and education. While our visit gave us the chance to further explore these issues, we were also lucky enough to learn about other aspects of Mexican society, and to enjoy ten days in a vibrant and exciting city.

On the first day, while still a bit jet-lagged, we enjoyed a guided tour of the city. Our highlights including seeing murals painted by Diego Riviera and Frida Kahlo, and visiting the National Palace. Our knowledgeable guide peppered our tour with interesting anecdotes about the diversity of Mexican history and society – about colonialism and revolutions, tequila and cumbia, languages and religion – and provided an excellent introduction to the capital. We took the opportunity to ask for his opinions on contemporary issues in Mexican politics, particularly the complicated relationship with the United States following Trump´s election.

An Uncertain Future

After our first day, we quickly realised that we had arrived at a turbulent time for the Mexican economy. One topic seemed to be at the forefront of everyone's minds: the then upcoming Mexican general elections in July 2018. Would leftist candidate 'AMLO' become the new president? He did, in case you were wondering. What would happen to the peso? How should Mexico respond to Trump's statements regarding NAFTA, migration and "the wall"? How should the issues of corruption and drug trafficking be tackled?

Throughout our trip, we would be exposed to various responses to these important questions. During a visit to the British Embassy, experts shared their insights on the topics of corruption, politics, trade and education – emphasising past successful efforts to combat corruption and highlighting Mexico's increased role in the global economy. At the think-tank IMCO however, economists were more concerned about the future of Mexican democracy and inequality in the face of corruption and political instability – appearing less optimistic about the short-term possibilities for improvement. Nevertheless, while speaking about the challenges facing the Mexican economy, they also shared the organization's work for transparency within Mexican politics and the economy.

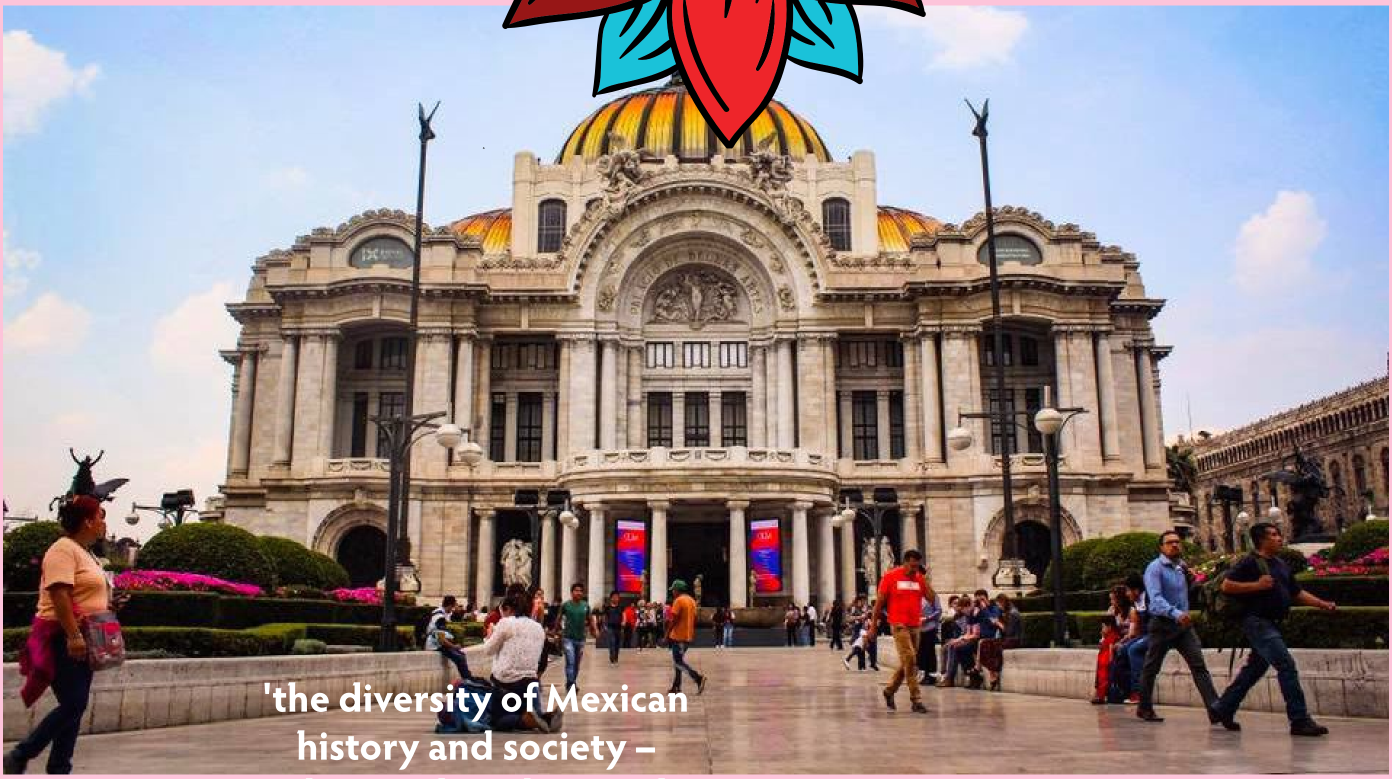
During a visit to the Instituto Tecnológico Autónomo de México (ITAM), a private university, we were offered the opinions of economics professors on the upcoming elections and discuss possible future trajectories for the Mexican economy. The professors seemed particularly concerned about continued political instability in some of Mexico's provinces, and about disruptions to trade caused by uncertainty surrounding NAFTA and the outcome of the Mexican elections. ITAM students also told us about their academic experiences at the university, which offered us a chance to reflect on the differences and similarities with our studies in Edinburgh. It was particularly interesting to discuss topics not as thoroughly covered in our studies in Edinburgh, such as economic crime, demography and informal markets in the Americas.

While the elections appeared to be topic on everyone's minds, we also were exposed to other current debates in Mexican society. At the Bank of Mexico, a resident economist gave students a talk on recent trends in the Mexican economy, touching on inflation, currency fluctuations and the international trade negotiations. We had the chance to learn about the consequences of the peso's devaluation, and to hear the Bank's perspectives on the changing trends in migration that Mexico is experiencing. There was a focus on the large numbers of Mexicans crossing the border from the US, and an influx of migrants arriving from Central-American countries such as Honduras and El Salvador.

Having previously studied monetary policy from a theoretical viewpoint in Edinburgh, it was very interesting to hear first-hand about the real-life workings of a central bank, particularly the Bank's struggles with keeping inflation on target. While many of the people we spoke to suggested the Mexican economy was going through a period of uncertainty, largely due to global and local political developments, we also had the impression that the economy was characterised by dynamism and expansion. Several academic papers we studied prior to the trip emphasised Mexico´s role as a key destination for global manufacturing. A visit to the British Chamber of Commerce to learn about the experiences of British businesses based in Mexico appeared to confirm this trend.

Amor de la Vida

Apart from learning about the Mexican economy from various academic



'the diversity of Mexican history and society – about colonialism and revolutions, tequila and cumbia, languages and religion'

and business institutions, we had the chance to experience the rich cultural life of Mexico City. Aside from the beautiful art, architecture and historical monuments that scatter the streets, the city has an abundance of fresh food and drink. We greatly enjoyed visiting the Frida Kahlo museum, the Coyoacán market, a cactus-based liqueur producer, and the National Autonomous University of Mexico's campus. Students also had the chance to attend a salsa-dancing event, and all of us enjoyed sampling different types of delicious Mexican cuisine in the evenings. Other cultural highlights included attending a local football match at the Olympic stadium, and seeing a performance of 'Ballet Folklorico' at the Palacio de Bellas Artes.

While Mexico City is a cosmopolitan city with a strong urban feel to it, we had the chance to see another side of the city during our trip to the Xochimilco canals. Upon visiting and seeing the scenic views of the canal, we were told about the different traditions for food production that have existed in the area through the ages. One of these is the Chinampas method of agriculture, predominantly used by the Aztecs, which uses small rectangular areas of fertile land to grow crops on shallow freshwater lakebeds.

While enjoying a tasty meal of locally grown food, we learnt about the revival of the Chinampas and other traditional farming methods. After lively chat and discussion, we arrived at our destination: an organic farm. This visit provided an opportunity to reflect on how economic factors intertwine with cultural, social and political forces, to shape how we relate to the environment around us. Despite Mexico's vastly different historical agricultural practices, contemporary concerns about food sovereignty and sustainable production is now causing an increase in ancient methods, such as the Chinampas.

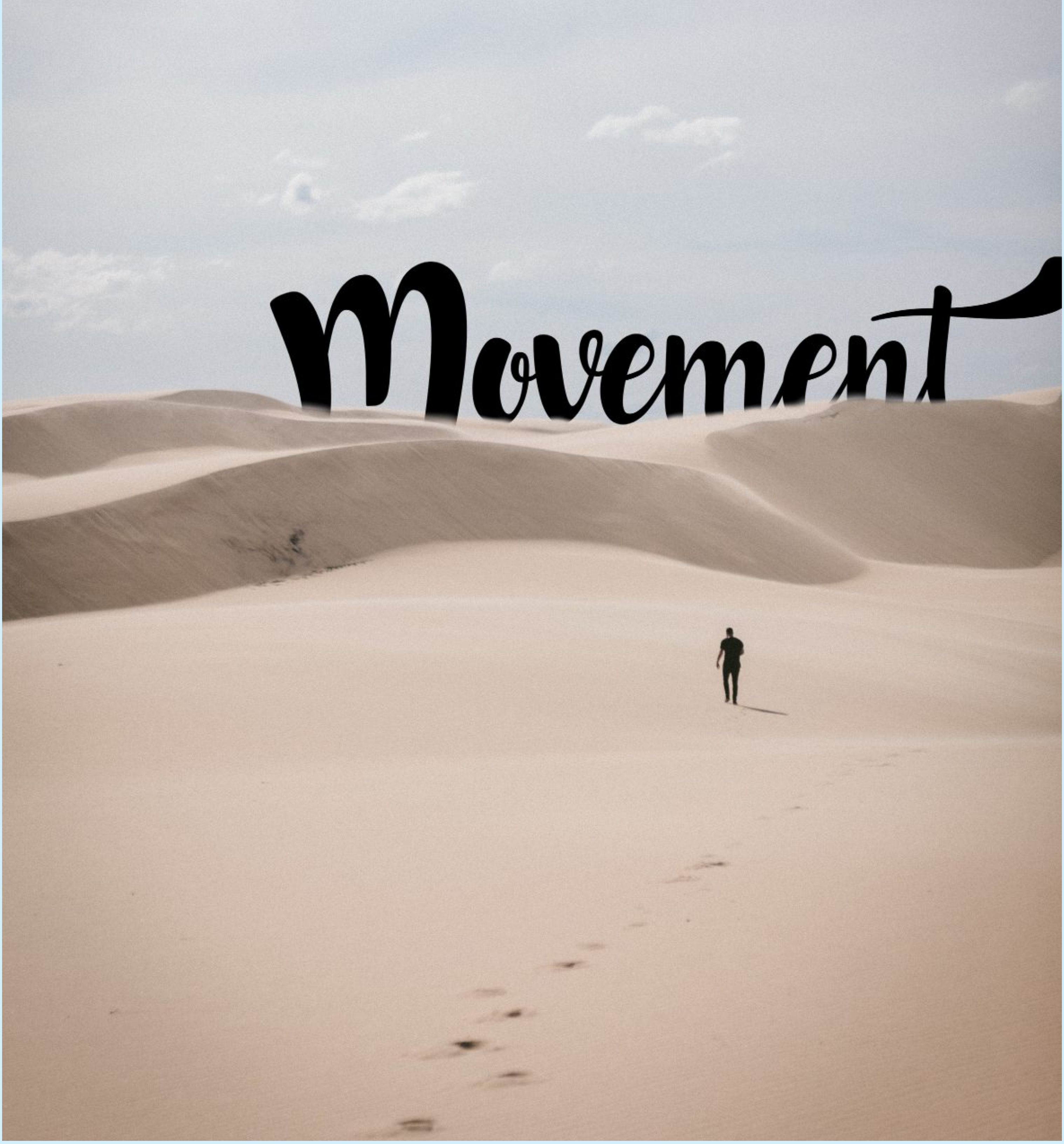
Similar discussions arose on our day-trip away from the city, when the group visited Teotihuacan. There, we were amazed by the architectural wonders of the ancient pyramids, which offered a glimpse into the rich history of Mexico.

Our trip to Mexico City was filled with great conversations, interesting cultural and academic experiences, and opportunities to reflect on Economics beyond theory. While our ten days in the city came to an end more quickly than we would have liked, our experiences sparked discussions, reflections, and friendships that have lasted well beyond our trip.

Trade requires movement. Be it ideas, or basic goods, or even people, without these meetings it is impossible for us to trade with each other. The give and take of our global economy requires that we meet and interact. All trade begins with this.

Within this section, Carlos Javier looks at the fragile world of container shipping. Sukanya Subramaniyan discusses the positives of selling citizenship. Feiyang Shi considers the consequences of Chinese development aid. Elena D'Allagnese walks through the influence of migrants on the Italian economy.

Movement



Freights in Rough Water

Carlos Javier Perez uncovers how the industry that has made the world available at our local supermarkets may be in for a tough time in the coming years.

Ecuadorian bananas, German cars, and Cameroonian coffee. What do these have in common? They are all available in Edinburgh, Scotland, because of containerisation. The containerisation phenomenon has enabled us to purchase goods from around the world with ease, and significantly improved the safety and efficiency of international trade. The radical shift in efficiency resulting from upgraded transporting and handling protocols has led to 90% of world trade to be carried out by sea. As a result, an unspoken global dependence on the shipping industry has emerged. In 2020, the stability of this industry will be put to the test as new regulation will significantly lower the emission levels that can be produced by vessels

Following a meeting held on October 2016, the UN International Maritime Organization (IMO) ruled that on January 1st 2020, the sulphur content of marine fuel must drop from 3.5% to 0.5%. This is a tenacious move by the regulating body as it attempts to curb the high sulphur emissions linked to respiratory diseases and acid rain. Having also set aggressive targets to cut carbon dioxide emission within the next 30 years, the 2020 regulation will prove an important test not only for the industry but for the future of global trade.

Dead Ahead

As shipping giants such as MSC and A.P. Moller-Maersk prepare themselves for their greatest challenge in a decade, they must decide their path for the near future. There are three options which shipping companies can undertake as solutions: switching to liquefied natural gas (LNG), installing scrubbers, or buying higher quality marine fuel. According to a study conducted by S&P Global Platts, the most viable option seems to be for shipping lines to switch to higher quality fuel. The option doesn't require extensive installation times or modification to already existing vessels, making it the least disruptive alternative. However, the price and the limited availability of the highly demanded oil derivatives will entail an increase in volatility for both the oil and shipping industry – attributable to the strong price correlation between high-quality marine fuel and other derivatives such as diesel, gas, jet fuel, and petrol. Furthermore, high competition is emerging for these derivatives. Together with refiner's limited supply, the issue puts into question the ability to fulfil what is projected by Morgan Stanley to be a 1.5-million-barrel increase in demand. Nonetheless, the maritime watchdog trusts that refiners will be able to fulfil the increase in demand, which is likely to be satisfied at a premium price.

As a result of a tight deadline and high levels of uncertainty, non-compliance is not only a possibility but an expected reality. While ships may comply in highly regulated areas, e.g. the US and the EU, non-compliance is likely to occur in open sea where vessels are expected to be regulated by the nation each vessel is registered in. This presents a loophole in the ruling as shipping lines have, for decades, favoured the practice of registering ships in countries of convenience, such as Liberia, which has the third highest registry of vessels. Thereby, the lack of capital and incentives for these nations to incur the high monitoring costs generated by the regulation will likely see shipping companies getting away with not complying with IMO ruling whilst on open sea.

Changing Course

The effects of this policy are beyond climate change and the shipping industry. Companies, in an attempt to survive, will likely try to pass these newly incurred costs to clients. Considering the vast group of clients that maritime trade covers, it is likely that exporters and importers of items varying from fresh fruit to electronics will be the bearers of the cost this measure involves. In other words, every item a consumer buys will incur higher transportation costs, forcing producers to either increase their prices or significantly shrink their profit margins.

As a result, this regulation has the potential to reshape global trade. As the costs of transporting cargo from further destinations are expected to hike, the appeal of nations with low production costs could be outweighed by the increase in freight rates; causing importers to target geographically closer producers. This, in turn, could be a setback for global trade as cargo volumes are likely to experience at least a partial shift from intercontinental trade onto regional trade. Thereby, benefiting numerous countries at the expense of other not so fortunate nations.

The repercussions that this regulation entails remains unclear; nevertheless, as the deadline approaches the winners and losers will unveil. The impact of the IMO's decision is likely to shock supply chains worldwide and simultaneously commence the next chapter for global trade and all that's left for us to do is sit by the pier and watch.

Movement

Home is Where the Gold is

Sukanya Subramaniyan uncovers the gold and dirt behind 'golden visas' and explores the consequences of trading citizenships.

The boundaries of international trade are not limited to raw materials, consumer goods and service industries – one of the scarcest resources in today's world is human capital. On a global scale, productivity, economic growth and innovation are deeply impacted by manpower, to such an extent, that one may wonder whether human capital can be considered a tradable 'good' in the world market. The notion of 'capitalising' humans and removing barriers in the international labour market, could stimulate economic development, reduce cross-country variations in income, and fill the various gaps in the workforce. A few mechanisms allow this, from old-fashioned immigration policies to more recent developments, such as the infamous economic citizenship scheme aptly-named 'golden visas'.

Golden visas are schemes that permit 'buying into a country', or 'trading' citizenship by putting a price – and a large one at that – on passports. They effectively grant the one percent access to citizenship rights in a country by investing a certain sum of money in the property or labour market, or in the wider economy. The program was introduced by St Kitts and Nevis in 1984, where one could purchase a passport and subsequently visa-free travel to over 80 countries, including all Schengen countries for a couple thousand dollars. Now, residence permits range from a €500,000 investment in the property market in Portugal, all the way to £2m or more in government bonds, share capital and other assets in the UK. Today, approximately 100 countries (including tax haven islands and OECD countries) offer citizenship-by-investment schemes – but why are they so popular?

Trading Citizenship

Many countries consider the selling of citizenship rights, to be consistent with market principles. The price set on visas, acts as a rationing mechanism. Only individuals who are willing and able to pay for residence permits, by comparing the costs and benefits of leaving one's own country and assessing possible job opportunities and skills, will purchase the visa. This is beneficial to both the immigrants and the host country. Immigrants are gifted tax advantages and visa-free travel. For host countries, apart from the significant revenues generated, the visas stipulate the creation of local jobs within the economy, thus depressing unemployment. Not to mention, aggregate demand and inward-investment levels are driven upwards by these 'high net-worth' migrants. In Portugal, golden visas account for over €3.9bn of foreign investment, and in the UK, Chinese investment alone peaked at $20.8bn in year 2017.

Akin to the free trade of goods and services, an open market for citizenship possesses many merits: enhanced efficiency and innovation, improved economic growth, and increased parity amongst societies. In an increasingly globalised world, citizenship as a purchasable, tradable commodity has become a reality. Mauritius, an economy once dependent on sugar production, benefited from exporting its primary resource through preferential trade agreements. Due to pressures from the WTO and other structural reforms, the country has begun using residential migration schemes to replace their economic reliance on sugar and to boost economic growth and development within its economy.

However, unlike most tradable goods and services, humans have a plethora of complicated factors that accompany them. Canada terminated their citizenship investment scheme, due to its dearth in fulfilling the objectives of increased growth and FDI, and further, even withdrew visa-free access to small islands, like St. Kitts. Why do some countries, that initially favoured this route, recently show trends of 'protectionism' with regards to trade in citizenship?

The 'Non-Protectionism' Era

'Citizen-by-investment' schemes have recently started to concern multiple parties including local citizens, policy makers and government. Although these 'high net-worth migrants' bring large amounts of foreign investment, there are unsavoury spill-over effects onto the economy. Little control is exercised over the allocation of the funds; and so the invested money seeps into the economy without leaving a traceable path. This lack of transparency and security checks prevailed for a long period of time – in the UK, several anti-corruption campaigners termed it 'the blind faith period'. Between 2007 and

2015, security checks on applicants for economic citizenship schemes were unexecuted. Naomi Hirst, a senior campaigner at the anti-corruption group Global Witness, claims “The Home Office assumed that the banks were doing the checks on the individuals, and the banks themselves were assuming that, because this individual was applying for a visa via the Home Office, the checks would be done further down the line,” leading to an alleged total of 3000 unreviewed persons in the UK.

The EB-5 visa program in the US has been plagued with rampant fraud; Victoria Chan, an attorney in the United States, falsified evidence to gain investor funds, and collected over $50 million from foreign investors seeking citizenship in the US. Citizen-by-investment schemes therefore allow a backdoor access to criminal activity and money laundering for wealthy foreign officials who can circumvent regular immigration institutions

Even if countries run the most extensive background checks and pick only the ideal candidates to join their nation, there are a handful of problem areas left to cover. A very serious issue has surfaced regarding the trade in manpower, especially over the last few decades. The movement of human capital from less developed countries (LDC), to more developed ones is purportedly causing a brain drain in LDCs as their much-needed investment funds and human capital move abroad.

Further, nations have begun to recognize how economic citizenship programs exacerbate inequality, by permitting access exclusively to the ‘ultra-rich’. Portugal’s Left Bloc political party MP, Jose Manuel Pureza, condemns the golden visa for discriminating between wealthy immigrants and the rest; the party has drafted a law proposing the abolition of the scheme in Portugal entirely. Commodifying citizenship, is very often seen as delegitimizing the sovereignty of a nation, infringing upon the values of an existing, established community. One could question whether a globalized, barrier-free world change the conception of citizenship.

Global Capitalism

“There are some things that money can’t buy.” What is the true extent of this sentence? Citizenship, a concept that hinged on the ideas of identity and belonging, has been re-conceptualized into a marketable, tradable good. Countries go for gold to drive up investment levels and spur economic growth, while immigrants exploit perks such as lax tax rates and visa-free travel. Are borders merely relics of a bygone era, as we head towards a global capitalist state? Certainly, citizenship lies in a grey area and while it is implausible that citizenship will be regulated purely on the basis of the price mechanism, traditional ties to nationalism and sovereignty are certainly loosening.

Countries are persistently looking for options that embrace the benefits of foreign investments and economic growth without having to face the backlash of monetary corruption. However, there is a long way to go in taking down the premise of exclusivity behind ‘golden visas;’ states must approach a more holistic view towards selling citizenship. Rather than being fixated on a wealth-based economy that reinvests in a ‘rich man’s world’, fast-track citizenship schemes could accommodate a skills-based migration process as well. Further, foreign investments can be directed towards the public sector with a focus on societal welfare and creative economic progress. Our most prized economic possession is undoubtedly human capital, and the question remains whether golden visas are the best way to foster migration.

A Second Tang Dynasty

Feiyang Shi explores the development of China's 'Belt and Road Initiative'.

Du Fu, a famous Chinese poet from the Tang dynasty, once wrote, "Cities dwell over 10,000 people, yet they were still counted as small. Rice-storing warehouses were always full, and the social order was ever so well. Without rampancy, you could travel at will without having to choose a good day to sail. Vehicles of the merchants all over streets, and the men and women all had their own jobs".

This poem delineated the Chinese Tang economic heyday made possible by the Silk Road. This network of land and maritime trade routes extended from Japan to the Mediterranean, and enabled the international exchanges of political and cultural discourses as well as goods. Later, the world witnessed developments in the West while China survived enclosed development, invasions, poverty and wars. Through this era, the Silk Road was left in abeyance. Though China was once considered underdeveloped, the last 50 years saw hastened Chinese economic development. Stepping from the context of the US hegemony, China has re-emerged as a leading economic power. Facing new challenges, China geared up to sweep the dust off of the Silk Road with its "Belt and Road Initiative". What does this imply for the economic world order today?

The Grand Scheme

President Xi Jinping introduced the "Belt and Road Initiative" in 2013. It primarily includes an infrastructure investment plan to construct land and maritime routes passing through 65 countries, affecting over 62% of the world population. Over 10,000 kilometres of railway will connect the Baltic to Southeast Asia, while maritime routes will link Europe to the South Pacific through the Indian Ocean. While trapped by poor infrastructure and climate, many included countries are well-endowed with natural resources. Consider Myanmar. Despite being 146th in terms of infrastructure, Myanmar supplies 90% of the world's rubies. Supported by the initiative, better infrastructure can complement the abundance in resources, increase the investment welfare multiplier, and boost economic growth. China also stands to gain both economically and politically as well.

'The initiative is a two-pronged approach to simultaneously stimulate economic growth and spur political harmonisation'

Domestically, construction is expected to stimulate economic development in Western China. Development prioritisation of the East coast and the overreliance on primary products have resulted in sluggish development in the West. Together with high ethnic heterogeneity and poverty rates, these factors have exacerbated regional political uncertainties. This area accommodates over 80% of the ethnic minority population and accounts for 37.8% of the counties living below poverty line. The initiative is a two-pronged approach to simultaneously stimulate economic growth and spur political harmonisation, where both strategies aid the objectives of the Chinese state. Moreover, the initiative also helps in diverting China's excess production capacity. The practice of decreasing excess production capacity via the construction of local government financing vehicles in practice, gives little returns. In Xinjiang, a bond default caused by missed payments mounted up to 521.8m RMB. While production activities need to continue on to underpin employment and economic vitality, improvements in investment returns are necessary. By exporting production capacity, China resolves its issues of low investment returns.

Externally, the project facilitates international communication and cooperation, but also implicitly implants a China-centred system of international relations. In the West, investment of over €1bn from COSCO, a Chinese shipping company, to Greece was warmly perceived by the government for creating over 3,000 jobs, with spill overs more than three times larger. As the trade war with the US persists, the relationships cultivated via the initiative helps China extend its reach. In the East, China is both the largest trade partner and investment source for Middle-Asian states. Kazakhstan, for example, has established 51 industrial projects with China, that are worth nearly $28bn. Through these, China stands to gain a boost in bargaining power at international trade talks via

'Through the initiative, China committed $1.4trn investment in the states along the Silk Road'

the increased geopolitical ties.

Considering China and its partners as players in a game, a win-win outcome seems to be feasible. Broadening the scope, a loser may exist according to neo-mercantilist ideas. A likely candidate is the star-spangled top hat.

Better Without me?

While China describes the initiative as open and mutually-beneficial, a shift in global power structure may result, and in turn may affect payoffs of all participants globally. Would it be a net gain for them?

To some extent, the economic and geopolitical implications of the initiative are worth being watchful of. In Eurasia, with China's geopolitical advantages in the region and the projects' synergy created by shared geostrategic understandings, new alliances should be anticipated. This gives China more support in the playing field and hardens its stance in the global arena. Through the initiative, China committed $1.4trn investment in the states along the Silk Road. Its investment towards the EU scaled up to nearly €36bn in 2016 and was very well-perceived. From the perspective of the US, China's gain in international politics are the US's losses through the alienation of its old allies. Thus, prospect theory predicts a hostile reaction, and indeed, the attitude from the US is considerably hostile. It alleges that China is increasing its leverage by burdening states with debt, thus increasing reliance. As the net gains or losses are likely to only appear in the long-run, only time will tell the extent of its effect.

Given that preferences and motivations are hard to decipher from actions, by pure economic reasons alone, the "Belt and Road Initiative" is structurally similar to the Marshall plan, which consisted of almost $13bn of aid to Europe. While the investment circumstances differ, the neutral observer can see different responses to superficially similar actions. If anything, under similar global circumstances, the US has specifically invested $113m to counter Chinese influence in the Indo-Pacific region. Without going into political ideology, China's actions can be rationalised as an ongoing game with the US over political influence. From another perspective, France has declared that Europe can no longer rely on the US for security. Even controlling for the influence of Chinese investments, it is more probable than not that Trump's withdrawal from the Transatlantic Trade and Investment Partnership has a significant, if not major effect on shifting global alliances and sentiments.

Regarding China's role as a creditor to states participating in the initiative, states wield more sovereignty in their decisions than is observed. Plans have been modified, and even scrapped by states that stand to benefit from the infrastructure investment, as in the cases of Pakistan, Malaysia and Sierra Leone. While this does not suggest the ideal state of equal bargaining, at least it suggest that partner states wield significant bargaining power that is sufficient to refuse the offers given. Thus, in judging whether the deals are mutually beneficial more attention should be paid to the individual agreements and net gains obtained by partner countries. The Tang dynasty's glory was founded on mutually beneficial exchanges, and many hope for the same in the 21st century. Is it better with or without China? The responsibility of the cost-benefit analysis lies within the states' faculties.

Movement

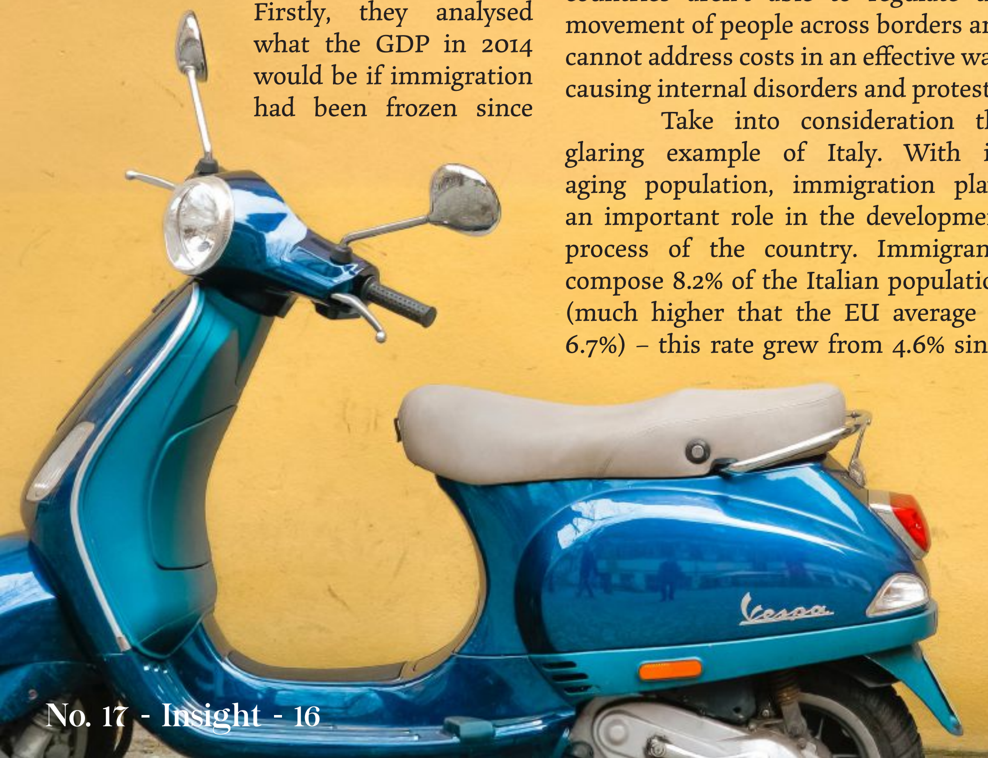
Rome-ing the World

Elena D'allagnese unravels the issues related to nationalistic biases towards immigration and how Italy's economy can be grateful for the contributions of its immigrants.

Over the last few years we have been witnessing mass migration in the Mediterranean are at a level some people would define as a 'humanitarian crisis.' Some consider it a threat or challenge - but they overlook its immense opportunity for economic growth.

Immigrants travelling across the Mediterranean Sea and Southeast Europe include asylum seekers and economic immigrants, with most of the them coming from Muslim-majority countries in the southern and eastern regions of Europe. These countries include the Greater Middle East and Africa, where migration is often motivated by war conflicts, persecutions or violence. This has been a pernicious issue in election campaigns and political debates across the whole world. Consequently, we are witnessing the rise of right-wing parties trying to stop the so-called 'invasion' in the name of the nation – most of them stealing the spotlight with the nationalistic phrase: "immigrants are taking our jobs". But is it true?

To answer this question, Citigroup and the Oxford Martin School at the University of Oxford conducted research on the consequences of immigration in the OECD countries. Firstly, they analysed what the GDP in 2014 would be if immigration had been frozen since 1990; for example, in United Kingdom and Germany it would be £175bn (9%) and €155bn (6%) lower respectively. This makes economic sense: an increasing number of migrants creates employment opportunities as there is a greater demand for goods and services. Supply also rises to match this demand and more jobs are created, upturning the overall level of income and employment. Immigrants also contribute more than they actually receive; citing the research from The Migration Observatory of Oxford University, migrants contributed to £31.2bn in taxes and used services for £28.8bn with a net fiscal contribution of about £2.5bn. Moreover, they are two to three times more likely to start a new business and create innovation as skilled immigrating workers can bring capabilities that are not available in the native workforce. The slogan 'immigrants are taking our jobs' is built on the 'Lump of Labour Fallacy' – the assumption that the amount of work available is scarce.



Political Lines

The main issue with immigration is directly connected to government interventions. Most countries aren't able to regulate the movement of people across borders and cannot address costs in an effective way, causing internal disorders and protests.

Take into consideration the glaring example of Italy. With its aging population, immigration plays an important role in the development process of the country. Immigrants compose 8.2% of the Italian population (much higher that the EU average of 6.7%) – this rate grew from 4.6% since 2005 and appears to be set to continue. Whilst one Italian out of ten is at least 75 years old, one migrant out of one hundred is over that age – their impact on pension costs is very low and at the same time they're actively contributing to pay Italians' pension with their workforce. The Italian newspaper 'Il Fatto Quotidiano' accounted that immigrant contributions to taxes amount to €16.9bn, in contrast with the €14.7bn they use in benefits, meaning that there is a budget surplus of €2.2bn.

Conversely, Italy is using a chaotic method to deal with immigration. The lack of infrastructures and services for foreigners is overwhelming. More and more protests are being organized from both citizens and immigrants. Right-wing parties such as "The League" focus on isolated topics, such as crime, and provide false or obsolete data to scare the population about their safety. Displacements and cultural globalization – especially Islamization – incompatible with the traditional Italian culture are also used as gains for political consensus. People often scream through megaphones, asking to stop the invasion and threatening to expel migrants from Italy, trying to protect the 'made in Italy' brand and agriculture. They often forget that migrants are actually a pillar in the economy, one whose disappearance would have a violent impact on production.

Come From Away

For example, in Latina (Rome), the Indian community represents 90% of the manpower when it comes to fruit and vegetables production. The native Italian labour supply is almost non-existent in this field because of the characteristics of this type of work: minimum wages, no career development prospects, and incredible physical effort (especially in the summer when temperatures reach 45°C). Moreover, during the last two years, Italian enterprises diminished by 2.7% while foreign business increased by 25.8%, producing €102bn (6.9% of the GDP). Immigrants also transfer an average of €5.1bn in remittances to their home countries, generating an economic flux with a bigger impact of Italian's public investments for development. In the end, answering the question about the merit of labour is not that hard, when looking at numbers.

Culture

What we consume and create is made possible by trade. Without communication and the ability to acquire new ingredients, new products and markets are impossible to create. Without this, society stops developing and we stagnate. Culture, especially that involving our consumption could not survive that.

In this section, Hedvig Heffer Flaata explains how salmon sushi ends up on your plate. Joshua Loceff analyses the political effects of the whiskey trade. Ben Barbour walks through the place of marketing in football.

Norway's Raw Success in Japan

Hedvig Heffer Flaata explores the surprising origin of salmon sushi, and how the invention helped expand Norway's salmon trade, making it one of the country's biggest exports.

The most common and beloved type of sushi was not made by a Japanese sushi chef. In fact, it was invented by the Norwegian government to save the country's farmed salmon industry. Although salmon sushi has become a world-renowned staple of Japanese culture, it is often made with Norwegian salmon. Norway is the largest salmon exporter in the world, exporting to over 150 countries, and making salmon second only to oil in terms of contribution to GDP. Even though Japan has embraced salmon as sushi, there are still a handful of orthodox sushi chefs in Japan who refuse to serve it. The Norwegian government spent 10 years, and 30m NOK (£3m) introducing salmon sushi to Japan, and this is the story of how it ended up becoming one of the country´s greatest exports.

Needing a New Market

It began in 1985, when a Norwegian trade delegation visited Japan, and saw an opportunity to export salmon to Japan. The Japanese had never considered salmon to be suitable for sushi, as raw Japanese salmon is inedible due to parasites in the Pacific Ocean. At the time, Japan's seafood industry was self-sufficient and only a small amount of salmon was imported for grilling. On average, a Japanese person eats 60kg of seafood a year, 4 times the worldwide average consumption per capita. With population growth and overfishing in Japan beginning to become an issue, a market opportunity was slowly emerging. Upon their return to Norway, the delegation saw fit to create a plan for breaking in to the Japanese market.

> **'Taxpayer money landed in the pockets of salmon farmers'**

Why was breaking Into the Japanese market so important for Norway? At the time, the salmon industry was heavily subsidized and unsustainable in the long-run, as large amounts of taxpayer money landed in the pockets of salmon farmers, resulting in the industry not having a positive net effect on the country's economy. Additionally, excess supply was an issue as premium Norwegian salmon was being frozen and sold at a low price, instead of being sold fresh at a much higher price due to lack of demand. Furthermore, breaking into the Sushi market would result in significant profits for the Norwegian government, since sushi grade salmon could be sold at a hefty premium.

Project Japan takes off

'Project Japan', the plan to introduce salmon sushi to Japan would prove to be difficult and long-winded. Since Japanese salmon in the 80s was regarded as sub-par, the Japanese were biased against introducing Norwegian salmon to the market, claiming it had the wrong smell, consistency and taste for sushi. The breakthrough only occurred ten years into 'Project Japan', when convenience store chain Nishi Rei agreed to trial frozen salmon sushi, and the rest is history. As soon as the new type of sushi became a success in Japan, the rest of the world followed suit.

Salmon sushi has unexpectedly affected the world as well. Most significantly, it has resulted in the incredibly cheap airfare on outbound Norwegian traffic, mainly with carriers SAS and Norwegian. How is this possible? In the hold of outbound flights from Norway, there can be up to 10 tons of salmon, making the routes more profitable while keeping ticket prices low. In fact, recent increases in routes from Norway to the US are due to increasing demand for Norwegian salmon and the increasing premium that the manufacturers can charge. Over 600 tons of fresh fish are exported by plane from Norway daily, with much of it being transported by commercial airlines. The increased demand for salmon sushi worldwide has led to new routes opening frequently in the last 10 years. Route cost is being carried by the salmon exported, and ticket prices to destinations in the US and EU have decreased in conjunction with increased demand for salmon.

Today, Norway produces 1.23m tons of salmon every year, with Japan importing over £250m worth annually. There is no doubt that farmed Norwegian fish is by far the most popular choice for sushi in the world today. This idea from 1985, did not only introduce a new form of sushi, but also saved the Norwegian salmon industry, and paved the way for making it one of the country´s biggest exports.

Trade-war in a Bottle (of Whisky)

Joshua Loceff investigates how the changing market for Whiskey is reflective of global economic trends.

You probably haven't heard, but William Street passed away this summer. He was President of the Brown-Forman company, the producer of Jack Daniels whisky, yet what makes Street noteworthy is his status as the top individual contributor to Senate majority leader Mitch McConnell. This close relationship between McConnel and the Kentucky whiskey industry has recently come to the attention of the European Union Commission for its effect upon trade tariffs.

Partially in response to the 25% tax on European steel by Trump earlier this year, the EU levied a 25% tariff on American bourbon. This was particularly unwelcome news in Kentucky, where the distilling industry has been a key area of growth for the state's economy in recent years. Selling the famous bourbon name abroad represents $381m a year for Kentucky, with much of this coming from the European market - Spain alone imported $87.4m of that total in 2017.

Changing Tides

US distillers have only just begun to reap the benefits of their efforts to win over consumers in Europe, where an amber wave of bourbon drinking has started to break open the conventionally Scotch-dominated whisky market - US spirits exports to the UK increased by 45.6% last year. With burgeoning markets across Europe, the last thing distillers want is trade barriers that would stymie this growing surge of bourbon into glasses across the pond.

Thus, the whisky industry is indicative of many smaller sectors, in that they are suddenly being faced with a dramatic change in global trading arrangements - which for a long time had remained firmly within a free-trade status quo. Far from simply being about their whisky, the fate of bourbon producers is caught up in the changing economic tides.

These latest tariffs are burdening Kentucky distilleries and making Senator McConnell very anxious, too. Does the issue have any relation to his surprisingly vocal criticisms of Trump's trade policy? Almost certainly – McConnell's close ties with Kentucky spirits businesses such as Brown-Forman (who have publicly opposed the growing trade war) mean he cannot afford to ignore these grievances. And the whisky trade is just one part of the state's economy caught up in this tariff escalation - Kentucky is home to Toyota's biggest plant, and they too are growing increasingly restless about the trade barriers Trump is instituting for the automobile industry. All this means that if he wants to be seen to be protecting both jobs and big interests at home, Senator McConnell might need to keep pressuring Washington to change tact in its trade policy. With the balance of power having shifted after November's midterm elections, other republicans might become emboldened to voice their opposition. But considering how the president has relied on tariffs as a tool for showing his "America first" policy in action, it seems unlikely that they'll change his mind.

Scottish Whisky from Scotland?

However, whisky troubles are not just caused by American trade policy. With Brexit fast approaching, one of the less talked about hurdles is a dispute over Geographic Indicators (GIs). These are EU regulations which stipulate that Champagne must come from France, or Parmesan from Italy, and Scotch from Scotland. However, Britain in unwilling to be associated with protectionist EU laws, in hope of being as open as possible, and so will undoubtedly refuse to recognise these regulations once it leaves the EU.

The US sees this as an opportunity to open the UK market to American-made products that currently don't meet European requirements. For example, EU laws state that whiskey must be aged for a minimum of three years – which prohibits many low-end American whiskies from being sold in the UK. The comparatively small and traditional Scotch industry faces the potential threat of their domestic market being flooded with cheap, young American whiskies.

Global Drinking Patterns

Distilleries must adapt to a new world of trading arrangements. And it seems that the UK government wants them to follow this path, as they attempt to shoehorn the iconic symbol of Scotch into their image of a non-European UK exporting British culture. Earlier this year Theresa May took representatives of the Scotch whisky industry to South Africa to demonstrate the potential for new trading relationships. Her choice reflects a growing market – Scotch exports to the African continent rose by 13% in 2017. But on the other hand, it seems like a desperate attempt to show a post-Brexit Britain venturing alone into the seas of global trade.

In this way Theresa May is finding herself in a position similar to that of Senator McConnell's - both are dealing with disruptions to the political status quo, whether it's the emergency of extreme protectionism in the Republican Party or the UK's exit from Europe. Neither of these longstanding political figures wanted or foresaw such events, but are now trying to work out how to adapt their communities' economies, which were comfortably used to the conventional set up.

Culture

The Changing Economics of Football

Ben Barbour unearths the global multi-million marketing engine that has become of football, and why the beautiful game has become much more than meets the eye.

Over the summer, Juventus, seven-time consecutive winners of Italy's top football league, signed Cristiano Ronaldo for €100m, making him the third highest paid player in the world. The signing of this 33-year-old football player on a four-year contract from Real Madrid is strange in some ways, particularly given his age and therefore lack of "sell on value."

Yet despite the estimated €340m that Ronaldo will cost the club over the next four years, the signing was also economically pragmatic: for instance, the amount of income and awareness he will raise for the club is already evident. In the month following Ronaldo's signing, Juventus gained 10 million additional social media followers and were able to hike up season ticket prices by 30%, increasing match day revenue from €56.4m to €70m.

Mr. Agnelli, a member of the family which owns Fiat cars and Juventus, said this was the 'first time that the commercial side and the sporting side of Juventus came together in assessing the costs and benefits' of a signing. This is contrasted by clubs such as Bayern Munich (Germany's leading club), who continue to overlook the commercial qualities of players and make decisions purely based on their merit on the pitch. In an increasingly competitive market, that attracts billions in global investment annually, only time will tell how commerciality will continue to coexist with football.

The Marketing Machine

Manchester United, the self-proclaimed most successful club in the world, is prime examples in reaping the benefits from the increasing commercial successes of the beautiful game. Although clubs such as Real Madrid may hold more trophies than Manchester United, there is no doubt that off the pitch, United is the club to beat. Manchester United currently earns €156m per year from their main kit sponsors, Adidas and Chevrolet, whereas Juventus only earn €40m per year from their major kit sponsors, Adidas and Jeep. Manchester United retained their spot at the top of Deloitte's annual money league with revenues of €676.3m, albeit closely followed by Real Madrid.

'Underpinning it all is the simple global appeal of football, brought to all corners of the world by television.'

Key to this dominance is Manchester United's willingness to delve into every possible market, meaning they have over double the commercial partners of Real Madrid. Sponsors range from main partners, such as Chevrolet and Aon, to the more obscure 'You.C1000', the club's official isotonic drinks partner in Indonesia. Other partner companies such as tractor and mattress brands, as well as the Bank of Ecuador, shows just how wide reaching Manchester United brand has become. Manchester United delivers legitimacy to these brands and are a popular partner for brands looking to enter a specific market.

All Eyes on TV

Underpinning it all is the simple global appeal of football, brought to all corners of the world by television. Television has created demand for sponsorship so much that Chelsea FC has recently agreed to a five-year sponsorship deal with Hyundai worth £50m, just for Hyundai to display their logo on Chelsea's kit sleeves. It is clear when watching the Premier League, that the logos displayed on the shirts of the players are not necessarily aimed at influencing those watching the game from the stands. Betting companies make up over half of the major shirt sponsors in the Premier League. Plenty of these are Asian companies advertising in the UK due to domestic restrictions. Club shirts are becoming quasi billboards for an increasingly large Asian market because the humble television has brought football into homes across the globe.

Live football broadcasting is one of the few 'must watch live' TV experiences as media has become an empire of on demand programming. This broadcasting power with the social media reach of the clubs and their star players has driven up the value of a club's brand as a media asset. For instance, the Premier League was one of the first leagues to introduce 'digital billboard replacement'. This software allows the advertising on the billboards surrounding the pitch to be changed for different broadcasts, meaning that advertising can be targeted to each of the multitude of nations where the game is being watched in real time. Given that in the 2016/17 season, 185 countries broadcast the Premier League, this software is clearly an increasingly useful tool. Amazon and Eleven sports, both streaming platforms, have recently entered the market for Premier League broadcasting rights. The way that the Premier League responds to this changing media landscape will define whether or not the market will continue to grow. The Spanish league, LaLiga, is attempting to stage a league game in the US in order to expand its global reach. For the Premier League stays ahead of new innovations, such as the entrance of streaming platforms and emerging markets like the US, in order to maintain its position as the richest and most marketable league in the world.

EDINBURGH ECONOMICS ALUMNI EVENING

Keynote speaker	Professor John Kay CBE, FRESE, FBA, FACSS
Date	12th April 2019, 7pm
Location	Playfair Hall @ Surgeon's Hall

Drinks and canapés will be provided

THE UNIVERSITY of EDINBURGH
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ECONOMICS SOCIETY

Getting along is never easy, especially when you don't want the same thing. This section will consider how these arguments between global players and individual interests play out, and how decisions can be influenced by them. Conflicting interests can be difficult to manage, but the necessary trade-offs can often be a bitter pill to swallow.

In this section, Habeeb Baig considers how trade influences decision making in Ethiopia. Benedict Troy explains the global arms trade. Daniel Ooi delves into the game theoretic nature of dowry payments.

CONFLICT

All Roads Lead to Nairobi

Habeeb Baig explores the multidimensional impact of globalism and escalating trade warfare on the developing world.

Economic life in the modern world is rarely simple, and this principle is neither more exemplified nor broken than in Ethiopia. Farmers in the south live a straightforward economic life; as the rain comes and goes, demand for their crops ebbs and flows. Meanwhile, in the cities workers hop from job to job as the scale and number of internationally-focused companies grow under the backdrop of increasing trade liberalisation and deregulation. Given Ethiopia's quasi-globalised economy it is difficult to discern how a trade war between the US and China could affect the country, but to get a better idea we can take a step back in time.

A New Cold War

The post-World War Two decades characterised by nuclear fear and intense political polarisation are long past, but the parallels between today and then can be drawn in obvious ways. For example, the proxy wars fought by the USA and USSR in Asia are analogous to the financial warfare across Africa prevalent between the USA and China dominating world headlines today. It is curious somewhat that the geographical focus has shifted so much; it is hardly as if Afghanistan and Central Asia have developed massively over the years since the Cold War. So what do countries like Ethiopia have this time that they didn't before?

As developed economies have transitioned into a post-industrial state (and those like India and China have rapidly industrialised), the demand for metals, minerals, and cheap labour has never been higher. This is combined with the strategic value of the geographies in the developing economies (For example. Somalia connects the Arabian Peninsula with South-East Africa and the Indian Ocean). Resource-rich, geographically diverse developing countries have thus become a playground for those with strategic and economic interests from both the West and the Far East.

Further, the economic interplay in Africa is interesting to observe. A McKinsey report highlighting 10,000 Chinese-owned firms on the continent also reported the rapid growth in trade, at over 20 percent a year since the turn of the millennium. The keystone of Chinese involvement in Africa is infrastructure financing, over 3,000 infrastructure projects – valued at over $20bn – have been funded by Chinese entities. American investment is hardly lagging behind as over $70bn in FDI stock within Africa is held by American firms, and corporations such as Power Africa bringing reliable electricity to over 10.6m homes and businesses. It would, of course, be damaging for this to be withdrawn. A fascinating game theory exercise could deal with the issue on whether China or the USA should withdraw or increase aid in the event of a trade war.

> **'The work is steady,' he says, 'but we know it might not last'**

Cargo-boat Diplomacy

A continued look at Ethiopia provides a poignant example of the potential detrimental effects of global trade. Data is sparse for much of the latter half of the 20th century, but a contemporary World Bank report attempted to make sense of the nation's unstable economy during the 1980s, a pivotal decade in the Cold War. As expected, Ethiopian exports showed no growth trend during the ten years. Some of the contributing factors to this stagnation were undoubtedly endogenic; a famine in northern Ethiopia (drought-prone and unsuitable for cash crops), as well as violent internal conflicts, occurred during the decade. These all came at a time where the increasingly inwards-focused USSR and USA were beginning to roll in their foreign aid. What observers thus saw was at least a 25% drop in the crucial indicator of coffee production over the entire economy. Coffee is still Ethiopia's prime export today, providing a livelihood for at least 15m people in the country.

The government can do little to prevent this – yet, at the same time perhaps it doesn't need to. Self-sufficiency seems alien to a modern economist, but in developing economies subsistence is key to daily life. Before the advent of economic globalisation, global trade just wasn't as influential on the quotidian Ethiopian economy. Regardless, international trade is more significant now than ever before. Ethiopian administrations in the past could allow citizens to subsist, but the same relaxed approach is significantly harder to pursue when trade is expanding past 30% of GDP as of 2017. What is a modern, better-equipped government to do?

A popular - and seemingly obvious - option in an increasingly polarised world is to raise tariffs, and depress your currency. Why risk your economy in the hands of skittish foreign investors and traders and put the wealth of your citizens at stake? Closing off from global markets and focusing on food and housing is the only rational option, isn't it? There may be an initial economic downturn, but that's not bad in the face of defending domestic industries from the volatility of Darwinian markets.

Attractive maybe, but likely to irk your government's partners in China and America. News outlet QZ highlighted eight countries heavily indebted to China, so much so that it could be characterised as a 'debt-trap'. Authorities in indebted Sri Lanka – a US partner - have already had to hand over a key port to China, and Djibouti – a US ally - looks en route to do the same. Closing borders in the current climate risks letting your neighbours overtake you with foreign-funded development and drawing the ire of the new superpowers.

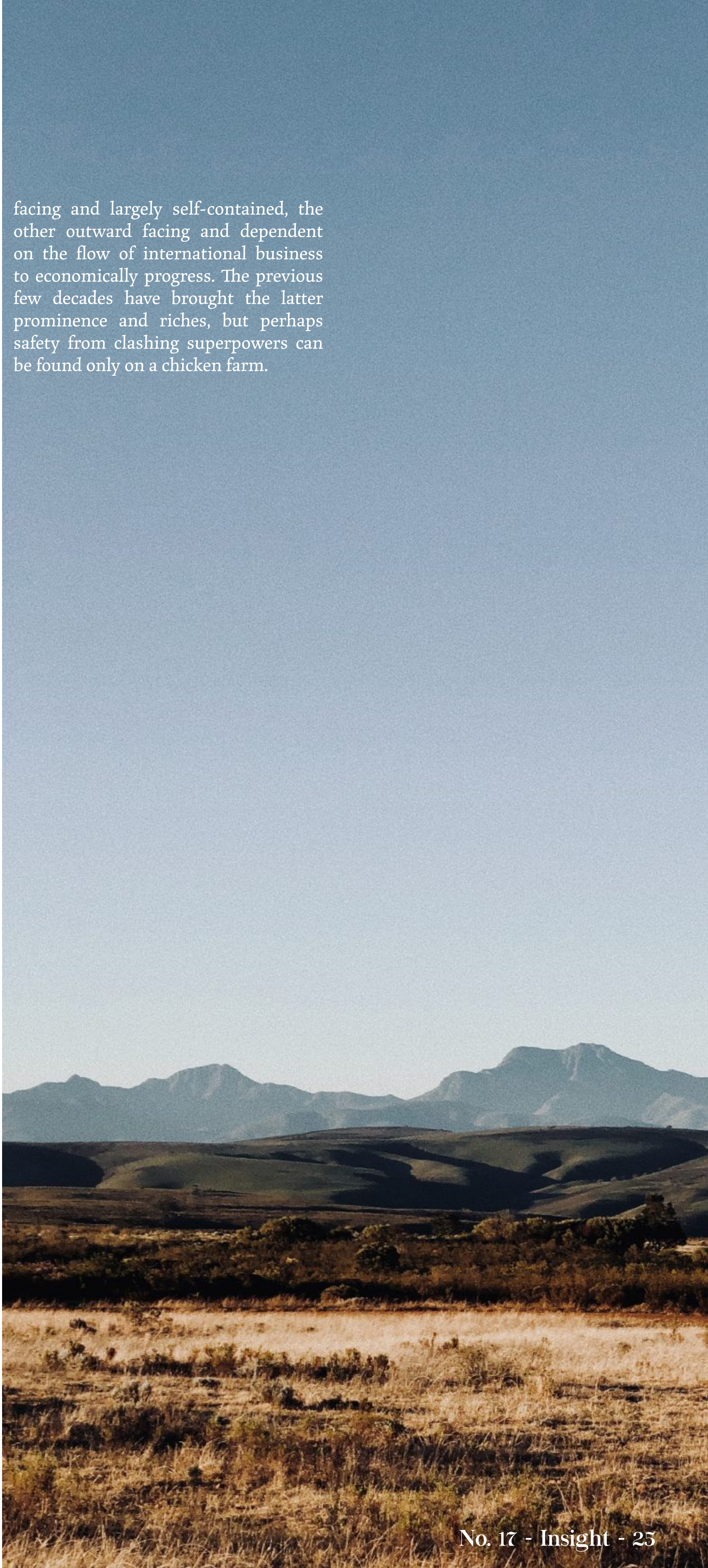
Farms and Factories

A picture of the effects of globalism and trade conflict is incomplete without considering the perspective of workers.

Kenny, for example, is a farmer located near Mombasa, Kenya. He has expanded from his small chicken pen to a large poultry farm in only a couple of years, fuelled by the information age where peer support, agricultural advice, and even financial support is rarely further than a Facebook post away. Poultry farming is by and large a local affair; his goods will rarely travel further than a few hundred miles, and his prices are determined by elementary market forces in local farmers' markets where buyers are rarely of international significance.

David is an operator at a denim factory near Nairobi, the Kenyan capital. The factory manufactures jeans for many internationally renowned labels. By nature, his job is far more exposed to volatile macroeconomic shocks and trends than Kenny's. Often in competition with Chinese manufacturers (usually based in the heavily polluted Xintang), the threat of the rug being pulled out from underneath Kenya's gradually developing clothing industry is ever-present. 'The work is steady,' he says, 'but we know it might not last'.

Therefore, we arrive at a profound conclusion. There are two Kenyas (and two Ethiopias, two Bangladeshs, etc.) in the view of trade. One is inward-facing and largely self-contained, the other outward facing and dependent on the flow of international business to economically progress. The previous few decades have brought the latter prominence and riches, but perhaps safety from clashing superpowers can be found only on a chicken farm.



Conflict

Arms Trade

Benedict Troy discusses the Global Arms Trade.

'The arms trade deal...has allowed them to flex their petro-dollar muscles'

As the global economy becomes increasingly internationally connected, more nations have become involved in the international arms trade. The sale of weaponry comes with more than just financial benefits; it can become a staple of political alliances by allowing access to new economic opportunities and control. It is also ridden with controversy. By selling lethal weaponry, a nation directly involves itself in the military actions of another. There is a trade-off between income and political point scoring, and the responsibility for the use of any arms sold that each government must come to terms with. In a time when weapons are more destructive than ever, the global arms trade seems reluctant to slow.

The largest arms deal in the world exists between the United States (US) and the Kingdom of Saudi Arabia (Saudi). Their first deal was struck in 1974 in the wake of the Organization of the Petroleum Exporting Countries' (OPEC) embargo that caused mayhem in the US economy. The then-President Nixon sent negotiators to Saudi Arabia with the goal of neutralising crude oil as a political weapon. The deal that was reached saw the US pledging military support and supplies to Saudi in exchange for consistent supply of oil. The deal also fuelled the US' deficit-inducing spending because it allowed for a new US access point to the wealth that the Saudi oil was generating. Saudi is perhaps the US' largest foreign creditor, with billions of dollars entering the US treasury since the dealings began.

Money Talks

The same purpose of the arms trade is served today. The revenue generated from arms sales allows the US to continue spending (even as the economy continues to run at a deficit), whilst simultaneously maintaining its leverage as a political tool. For example, Saudi Aramco, the Saudi state-owned oil company, announced it was going to float some of its shares in late 2018. In the run up to the planned (and since cancelled) IPO, it flirted with raising oil prices to increase the value of its shares. However, prices stayed between $70-80 a barrel. The Saudi dependency on the arms trade means that they are sensitive to their political relationship with the US, and a hike in the price of oil would be damaging to any US administration, particularly in the lead up to the November mid-terms. The US government exercised some of the power handed to it by the arms trade and was left much stronger for it.

As shown, the deal from the American point of view is highly lucrative. However, this is not lost on the side of the Saudis either. The arms trade deal with the US and other nations has

muscles and assert themselves further as a leading military presence in the Middle East. It also provides security from the instability in many of the nations that surround them. This is evidenced by Saudi intervention in Yemen, which is currently the source of the most controversy. Governments across the West have been urged to stop selling arms that may be contributing to what the UN have described as "the world's worst humanitarian crisis".

The arms trade deal appears to be an untouchable part of US foreign policy. In the face of objections from state specialist departments, Secretary of State Mike Pompeo insisted that the trading should continue. When the US government openly threatened sanctions on Saudi Arabia after their suspected involvement in the murder of journalist Jamal Khashoggi, President Trump stated that any changes to the standing arms agreement were out of the question. Trump continued by saying the US would be 'punishing itself' by losing funds and employment.

Going Global

Whilst it is easy to be caught up in US politics, one cannot overlook that the UK is also a large exporter of arms to Saudi Arabia. Despite the UK's arms revenue paling in comparison to of its European neighbours (revenue currently stands at $2.6m per year). France, the second highest European revenue generator, earns less than a fifth of the UK's revenue. The arms trade with Saudi Arabia is particularly important to the UK's defence industry as it is the destination of 36% of all of the sector's exports and is an integral part of keeping 300,000 people employed in the development manufacturing of the weapons. Like the US, the UK uses the income to help fund public spending and balance its running current account deficit. =But, their deal has much less to do with oil since the UK receives only 3% of their oil from Saudi Arabia.

Calls for the UK to suspend their sales are also present, though they seem to be missing the ears of the electorate. In fact, a YouGov poll found that 42% of the British public are unaware that the war in Yemen even exists. The UK government are certainly aware of it and have sent an ironic £139m of their foreign aid budget to Yemen yet they are still unwilling to take any action on their supplying of arms.

Other nations like France, Spain and Germany all take a slice of the petro-dollar cake in exchange for military technologies. The contention is not lost on them either. Spain and Germany both announced in September 2018 that they would halt and stop the expansion of arms trading respectively. Both have since back-tracked on this with little explanation. Germany again announced it would not approve any new arms deals after the death of Jamal Khashoggi but, at the time of writing, it is still unclear if they will follow through on this.

The arms trade will continue to be controversial. However, in light of an economic benefit and political leverage, it appears that morality is lost on governments around the world. Despite the consistent objections from various corners of Western society, it is apparent that when governments weigh up the costs and benefits of trading arms, they find that it is too tempting to turn down.

Conflict

A Dance of Dowries

WINNER OF THE INSIGHT WRITING PRIZE

Daniel Ooi explores the conflict between the dowry system and female education in India, with some help from Game of Thrones.

Marriage was once a political and financial transaction, consummated in the lifting of the veil, amid musical fanfare and joyful cheers. While the Western world has mostly lifted the institution of marriage far beyond the worldly concerns of money and labour division, according to Gary Becker, marriage is still essentially a question of household production and increasing returns to scale. And this is still true in parts of the world, for example, in India, characterized by its well-known dowry system.

Pricing Marriages

The Indian dowry system, predominately practiced in Northern India, consists of gifts from the bride's family to the groom's. Often the groom's family dictates the magnitude of the dowry. The dowry functions as both an inheritance to the bride as she leaves her parents, and a price for a good match. The latter reason is due to the prevalence of hypergamy in India, where women marry someone above their station, for example in terms of education attainment, or social rank. And it is this gap between the bride and the groom where the dowry payment comes in. For the fun of it, let us run a simple thought experiment:

Suppose that in Westeros, ladies must marry men from families of greater nobility. There, Gilly is deliberating between poor illegitimate Gendry and noble Tommen Baratheon and Margaery Tyrell is her only competitor. Suppose further that Gilly, somehow may pay Tommen to marry her. Since she is competing with Margaery, who is of higher status than her, she is willing to pay as much as is required to reach the same social status as Tommen. Consider this payment the dowry. The higher is Tommen's status, the higher the dowry needed for Gilly to marry Tommen.

The same theory applies in India. As a woman increases her education level, the pool of potential husbands shrinks since there are fewer better-educated men. This drives up the relative price of a good match. A complementary explanation is that as the educational attainment of a couple rises, so does the probability that the couple lives without parental support. In India, a married couple will typically live with the groom's parents. In exchange for independence and freedom from well televised in-law-induced-drama, the dowry must be paid to the groom's family as compensation.

A Game of Educational Choices

When considering how female educational attainment affects dowries, recall that it's not the bride who pays, but her parents instead. This means that dowries enter the equation when families make educational decisions for their daughters. Since higher education requires higher dowry payments, research has shown that families trade education for more affordable dowries by reducing years of schooling for girls by 1.6 years, a great deal in a sample where the average is 4.5 years. While further education for females can improve child health, reduce fertility rates and lower infant mortality rates, higher female education imposes significant financial costs on the bride's family in the Indian marriage market. Hence, a tradeoff exists between a cheap marriage and a potentially better life. And there is no way out of the Indian marriage market—social norms dictate compulsory marriage for all who come of age. This significantly affects intergenerational mobility. For the same dowry, less-educated women cannot afford high-educated husbands, and so must wed less-educated husbands who are therefore less costly. If it costs the (supposed) Lannister fortune for Gilly to marry Tommen, she might as well settle with Gendry. This unfortunate arrangement means less-educated children are less likely to rise socio-economically.

Furthermore, since the dowry system increases the marginal costs of raising girls, human capital investment and the demand for female children fall. Research finds that the dowry system is a major cause of the imbalanced child-sex ratio. Defined as the number of girls per 1000 boys, India has shown significant decline in this ratio, from 948 in 1991 to 918 in 2011. This is alarming, but the effects on the marriage market may prove interesting to observe. With both fewer women in the market and dowry offers to consider, it may be that men must pay instead. Would this lead to bride prices, as practiced in sub-Saharan Africa, in place of dowries? Only time can tell.

Here lies the inherent conflict in the Indian marriage market. The individually beneficial choice causes significant cost to the family, so long-run benefits are traded to avoid short-term costs. A related research paper shows that in Pakistan, where the dowry system is also common practice, individuals tend to be against this system but are powerless to do otherwise. This finding applies across all levels of education, suggesting that only societal reform can change the cycle. The day when girls can choose to rise in educational attainment without the constraint of marriage norms is a day to look forward to.

Mor(t)ality

‘Money, and not morality is the principle of commerce and commercial nations‘ - Thomas Jefferson

In this section, Hazel Cranmer considers the depths of the global blood trade. Wenqi Ni discusses how China could profit from increasing trade barriers. Robert Włodarski looks at the veracity of polish statistics.

The Blood Trade

Hazel Cranmer investigates the intricacies of the colossal and changing market for blood.

RUNNER-UP FOR THE INSIGHT WRITING PRIZE

Over the past few months, we have begun to realise the true scale of what is thought to be the largest treatment disaster and potential cover-up in NHS history. A new enquiry expects to confirm that during the 1970s and 1980s, as many as 35,000 people were exposed to, and contaminated with, HIV positive and hepatitis infected blood within the UK.

During this period, Britain was struggling to keep up with the demand for haemophilia treatments, and thus sought supplies from the US. However, much of the blood plasma imported to make the blood product came from prison inmates who exchanged their blood for days off their sentences. Furthermore, allegations have circulated for over a decade now that the Arkansas prison system knowingly profited from selling inmates' plasma infected with viral hepatitis and AIDS. Questions are now being asked as to the extent to which this issue was ignored at the time, and why some contaminated products remained in global circulation for so long.

In 2018, we celebrate the 200th anniversary of the first successful human-to-human blood transfusion. Today, the market is worth billions. Let's hope no one is turning in their graves as we look into this transformation.

The Global Picture

Trying to understand the confusing web that is the transferral of blood system leads deeper into the dark web of organ exchange. Nevertheless, the extent to which this market exists and crosses international borders is remarkable, and undoubtably underestimated.

The market for 'human and animal blood' is estimated to be the 13th highest grossing market in the world. This is one place higher than aircraft. It is important to recognise that there is virtually no global market for 'whole' blood mostly due to its short expiration date, instead the trade is entirely focused on blood plasma. This component is used not only in treatments to help haemophiliacs' blood to clot, but also in vaccines for rabies, tetanus and Rhesus disease. Despite global plasma exports grossing $126bn in 2016, many countries in the world have banned the exchange of payment for plasma and there has been much discrepancy over whether this is distorting a vital market. Since 2013, the value of US imports from Germany has tripled, and this growth pattern does not appear to be slowing down. In fact, annual growth is predicted to be 4.6% for at least the next 5 years, and the global supply for plasma simply cannot keep up with demand. To put that into some perspective, in 2015, almost 50 million litres of plasma were used, enough to fill 20 Olympic swimming pools. The US, the OPEC of plasma, produces 15 of those swimming-pool equivalents. Forget steel and cars: plasma makes up 1.6% of America's total goods exports.

However, the world's dependency on the US for 75 % of the global plasma supply leaves it in a very vulnerable position. Should there be any virus outbreak in this region or a national regulations crackdown on the market, pharmaceutical providers and individuals could face devastating consequences.

Blood Money

Today, the NHS is entirely self-sufficient in 'whole' blood thanks to two million annual donations. Yet 10% of NHS blood plasma is imported from Austria and Poland. Whilst it is undeniably safe (it is collected from voluntary non-remunerated donors who are subject to the same donor selection criteria as the NHS), the fact that we have to buy in foreign plasma seems illogical when we have a perfectly good population of people full of the stuff. Notably, only the small number of countries in the world who pay blood-givers (including the US, China and Germany) are self-sufficient in it. So, should the UK capitalise on this market?

Many react uncomfortably to this idea, yet from an economic perspective it may initially appear self-evident. In exchange for a blood-giver's time and, of course, valuable commodity - why shouldn't they receive payment? And surely it would serve to encourage more people to give their time and blood when before it did not seem as worthwhile to them. When NHS stocks repeatedly run low during football matches, the Olympics, Christmas and royal weddings, it might seem sensible that in order to prevent a potential shortage some kind of incentive is required.

An additional benefit is the potential source of income for the UK. Switzerland, which collects comparatively little plasma, exported $26bn-worth of plasma products in 2016. At a time when news headlines of cuts to mental health and disability services seem constant, the gains from this revenue could have wonderous consequences.

All in Vein

Scenes portrayed in the 2013 documentary 'BLOOD' by Alina Rudnitskaya may encompass the reasoning for fear behind introducing payment for blood. The film follows nurses of a mobile blood collection unit in a small town in north-western post-industrial Russia. Depicted 'donors' are desperate for the 850 Rb (£8.85) payment they expect to receive. Clearly most individuals are driven by a financial incentive, and for some, it is a lifeline. And perhaps this underpins what a market for blood would require: poverty and an inequality so extreme that people are desperate to exchange bodily fluids for food on the table.

The World Health Organisation states that 'the safest blood donors are voluntary, non-remunerated donors from low risk populations', due to fears that safety is compromised when an economic incentive is introduced. Those treating blood donations as a source of income have an incentive to lie about aspects of their life which would usually disqualify a donor. Whether that's as serious as lying about one's medical or sexual history, or simply whether they had gotten a piercing in the last four months.

However, this reasoning, whilst applicable to the trade of 'whole' blood, proves false in the debate for plasma. Plasma is heat-treated and bathed in chemicals to sanitise them (a practise that is impossible for 'whole' blood). Since these medical advancements, not a single case of transmission of HIV or hepatitis has occurred from plasma products. Many of the issues raised over the exchange of payment for plasma have been misdirected from the sale of 'whole' blood and empirical evidence has discredited them.

The Heart Strings

So why do people donate? A classic altruistic puzzle which repeatedly stumps economists. Some give blood after seeing a family member's life saved from donated blood, yet others have no personal connection. In the UK, we donate two million pints of blood a year. In fact, certain studies have suggested that adding a financial reward would deter donors rather than encouraging them.

Of course, less restrictive interpretations understand altruism as not being necessarily irrational. The feeling of doing a good deed is worth a certain amount of utility to a donor, and financial reward could lower the value of this act, and consequently lower utility. Subconsciously, the NHS has recognised and played into this. For the last year, NHSBT have sent a text to donors to inform them what hospital their blood has been issued to, a practise which has proved hugely popular.

'In 2018, we celebrate the 200th anniversary of the first successful human-to-human blood transfusion. Today, the market is worth billions.'

However, the theoretical argument that paying for blood plasma would lead to a subsequent drop in voluntary blood donations has so far proved false. The largest provider of paid plasma, the US, receives more voluntary donations per person than Canada, where there has been a clamp down on plasma clinics.

The Future for Blood

The global market for blood is in desperate need of reform. Any disruption to the supply of blood plasma from the US could have devastating consequences on treatment-dependent individuals. The prohibition on exchange of payment has left the world vulnerable and liberalisation of the market is vital to combatting this deathly blood monopoly. What has prevented a free global plasma market is not medical or social concerns, but purely ethical. Fears over exploitation of the poor remains an ethical question and while regulations are implemented, this is subject to abuse. After all, where there is money, there is exploitation.

Trade Tariffs: an Unlikely Boon

Wenqi Ni investigates the Chinese medical market in light of the China-US trade war.

A new Chinese brand of medical equipment, United Imaging, is increasing its popularity in both the national and international markets. The company was founded in 2011 by Zhang Qiang, who worked in the Nuclear Magnetic Resonance (MR) department of Siemens. In 2015, the company began exporting to the NHS and continued to expand globally since. Their expansion has been remarkably rapid considering the competitive medical equipment industry, and the negative effect the China-US trade war has had on the industry.

Until recently, the medical market in China was controlled by Western household names, such as General Electricity and Siemens. However, change is coming as, for example, in the Chinese province of Zhejiang the annual sales of GE and Siemens have fallen to 10% of their peak numbers in the mid-2000s.

A Declining Market?

Why then, are sales falling? One reason may be the effects of the China-US trade war. China has created a 5% tariff on medical equipment, which has a knock-on effect of increasing the prices of high-quality Western medical equipment like Computed Tomography, MR and Ultrasonic Diagnostic Instrument. In the past, the high level of precision and accuracy in Western products has made them more attractive, yet the increase in prices has forced hospitals to search for other options.

Domestic brands such as United Imaging or Ningbo Xingaoyi saw this as an opportunity to enter the highly profitable medical market. Their push for innovation created high-quality, yet cheaper, medical products. Furthermore, they actively communicate with well-developed firms. Therefore, not only do they create more competitive products, but they also know how to sell them. This paved the way for rapid success in the industry throughout many developed cities in China.

Beijing's Helping Hand

However, the Chinese government plays a large part too; tariffs can only explain the dominance of domestic products over imports to an extent. There is a culture of self-dependent innovation in China, promoted largely by the government but also by technological industries such as the medical industry. The Chinese government knows that over-reliance on imported products may actively harm, or at least retard, the establishment and enhancement of national industry.

The central government in China further highlights the importance of technology innovation and industry reconstruction. Some preferential and support policies have been implemented in well-developed areas especially Beijing, Shanghai and Zhejiang. For example, in 2014, the local government in Zhejiang founded a coordination group to encourage all medical organizations to adopt domestic products, and established a centre for the application of domestic large medical equipment. Many key 2A-class hospitals became pilots for the introduction of such products. Inspired by the political assistance, many companies and organizations are attaching more importance to the research and development of medical equipment, as well as academic communication with advanced domestic scientific institutions and well-known foreign study groups.

In turn, this helps both the companies and the national medical industry as a whole. Consumers arguably receive a better service too. With more patients using these domestic products, it will provide a considerable amount of data available for clinic diagnoses and future research. This data can be used to update equipment, adjust, and increase relevant accuracy and precision of the product. These steps have formed a virtuous circle beneficial to the modification of the medical market in China.

A Global Perspective

The success of such medical firms not only affects the national industry, but the global market as well. As mentioned, United Imaging began exporting to the NHS in 2015. The deal has since been valued by the Government to benefit the UK economy by £58 million over five years because it provides a 20% reduction in costs for medical imaging – a huge boon to the NHS who face sizeable overspends. Furthermore, in 2016, UK organisations signed 11 healthcare agreements with Chinese companies with a total value of £250 million. The changing Chinese market clearly has positive impacts on global domestic services.

Whilst it would be naïve to base the expansion of the national market entirely on the increased tariffs, there is no question that they affected the way the medical market in China operates. Yet to truly explain the transformation of the Chinese medical industry, the guiding role of government cannot be ignored. The growth of China over the last 30 years suggests that the tariffs sparked what is arguably inevitable progress, rather than being a driver in and of themselves.

Don't Trust Polish Statistics

Robert Jacek Włodarski analyses how systematic manipulations and errors make some of Poland's official data unreliable.

Are Polish statistics systematically biased? While in most European countries statistics are mainly based on government data, Poland's Finance Ministry has always been reluctant to share any information. As a result, the Central Statistical Office (GUS) collects most of its data from surveys, which makes them prone to random errors, and the reliability of self-reported data is never a given. To make matters worse, GUS data and calculation methods are not always made public. Instead, they share mainly aggregate figures, which increases the risk of systematic errors going undiscovered.

Unsurprisingly, this has led to various inaccuracies, and a few alleged manipulations. GUS has been accused of biasing data on wages, labour income share and the Gini coefficient. While these purported biases have brought political benefits to a few governments, they also influence foreign investors' perception of demand and, therefore, international trade.

What a Pole Earns

GUS is undoubtedly most unreliable when it comes to social inequality and wages. According to their survey-based calculations, Poland enjoys a 0.32 Gini coefficient. This is slightly above the EU average of 0.30. In 2017, two economists, Bukowski and Novkomet, scrutinised the official calculations using GUS data supplemented by Finance Ministry reports. Shockingly, their research found the GINI coefficient to be around 0.4-0.45 - closer to Malaysia, Peru or Uruguay than it is to any other EU country.

Similarly, experts have repeatedly voiced concerns over manipulations of wage statistics. They accuse GUS of calculating mean wages based on surveys with a suspiciously shaped sample space. In particular, their polls exclude the self-employed, small companies and farmers – in other words – those groups that have historically suffered the lowest wages. This means the £865 average monthly salary might be even lower. Consequently, Poland copes with very questionable data on wages in its national accounts which largely diverge from the OECD, ILO and Eurostat statistics.

The Wrong Track

Moreover, regardless of whether these systematic errors result from carelessness or benevolent ignorance, transport and construction sectors data have been repeatedly flagged as invalid. For instance, in July this year, GUS reported that Poland's largest seaport (Port Gdanski) enjoyed a 40.7% rise in the volume of products moved in the first half of the year. Port Gdanski immediately dismissed this figure as simply wrong.

In the construction sector, where the Central Statistical Office is responsible for calculating average input prices of building materials, the problem is even worse. These figures are widely used in all public and EU infrastructure investment tenders. Specifically, investors have repeatedly stressed that GUS rarely updates the numbers and often keeps them too low.

Business in the Dark

Why do biased statistics matter? Michał Brzeziński, an economist at Warsaw University, argues that such manipulations help create an image of a less divided country. Apart from discouraging local policymakers from implementing much needed socio-economic reforms, GUS also builds an image of an economy that is far more stable and safer to invest in than it actually is. With higher average wages, a lower Gini coefficient and no signs of wage stagnation, more firms are encouraged to enter the Polish market.

Moreover, foreign investors and merchants may be influenced by GUS data on transport which present the sector as stable and developing. The numbers are widely shared by Poland's public media like PAP, whose news are used by 96% of online media in Poland and by various international outlets like Reuters or Bloomberg. In the case of transport industry, such optimistic statistics could attract not only foreign transport companies but also traders who heavily rely on the minimisation costs. As a result, foreign companies may enter the Polish market relying on a sector that suffered a 29% increase in the number of bankruptcies in 2018.

Similarly, construction companies are hurt by artificially low input prices, especially in the case of public contracts. Firms experience limited profit margins as they need to spend more on input products than they received from the authorities. Unsurprisingly, foreign companies are disincentivised from entering the Polish market as they have to face larger fixed costs and, therefore, lower profits. If they compete for Poland's public contracts, they risk suffering the fate of almost 300 companies which went bankrupt during the construction of highways needed for Euro 2012. Alternatively, they might follow Ireland's Siac which has been fighting the Polish authorities in a £186 million court case since 2013.

Are erroneous statistics the biggest danger for foreign traders in Poland? Probably not. Nevertheless, considering the challenges posed by expanding red tape and the current government's hostility to foreign-owned capital, statistical errors should not be on the list of things they have to worry about.

GUS will make mistakes as long as it obtains its data from polls or questionable estimation methods. This can change if and only if Poland's Finance Ministry finally starts revealing its tax data and stops exploiting misinformation of the public. This, however, is unlikely.

Sitting down with Robert Zymek

Robert Zymek obtained his MSc and PhD in Economics from Universitat Pompeu Fabra in Barcelona. He completed his undergraduate studies at King's College, University of Cambridge.

He always had an interest in policy and economics – and particularly in how the two relate – yet did not always want to go into academia. As an undergrad he 'hated international economics' – yet 'as is often the case, I found out it was because my lecturer was really boring'. It was only throughnhis 'inspiring' Master's lecturer (and later his PhD advisor) that he went into international economics.

Initially, he pursued a master's because he foresaw a future for himself in policy. 'I wanted to do a master's without paying UK tuition and asked my professors and lecturers about where I could do a masters in macroeconomics without paying a ton' which lead him to the Universitat Pompeu Fabra in Barcelona, a world-renowned institution 'that the insiders knew about but I very much didn't'. His academic career only came later when he was offered a PhD scholarship and got 'sucked into academia'.

For him, policy is 'very different' to academia – 'as an academic you have a bit more time and perspective than the people in the debates. You can help people along a lot with your insights from research'. Would he ever go back to policy? Yes – there are 'lots of opportunities to be involved in policy'. But there's no need for him to commit to either side.

'It's nice to do both. Especially in an area like trade or macroeconomics'.

'Ultimately I view economics as a sort of policy since – the reason why people are interested in the opinions of economists is because they think of us as having something meaningful to say about how to run central banks and the government. It's always nice to go and find out what people in these institutions are concerned about – what sort of issues they are grappling with'.

His current research looks at bilateral trade imbalances. He notes that 'any country has trade deficits with some of its trade partners, and surpluses with others.' The goal of the project is 'to inject a little more fact into conversations about bilateral trade imbalances'.

The 'standard trade models identify three reasons why country A may have a large trade deficit with country B. The first is that, as a result of macroeconomic factors, country A is a big international borrower while country B is a saver. The second is that country A happens to spend a lot on the type of goods produced by B. The third possibility is that there are bigger barriers for A to export to B than for B to export to A – perhaps because B is trying to keep A's goods out of its markets. In the project, we try to quantify the relative importance of these three. '

His recent work also includes a paper with researchers at the Bank of England about exchange rate fluctuations. The paper looks into how changing exchange rates affect the prices of imported goods – the 'expectation is that because there is so much uncertainty right now, the exchange rate will probably fluctuate more'. It has multiple purposes – it's`interesting for academics, because there's a question about how quickly prices adjust to macro shocks. For the Bank of England, they want to better forecast inflation, which is affected by import prices'. Again, the line between policy and academia is blurry.

Zymek doesn't shy away from the realities of research either. 'With every project you do there's a sort of life cycle: at the beginning you're very enthusiastic, then it usually goes on for a little bit longer than you want it, by the end you're usually fed up'.

One final crucial question: if he could be any kind of tree, what tree would he be? 'I'd be a Christmas tree because I like Christmas, and the trees are very durable' - rational yet fun (just like an economist should be).

The Insight Scoop

1. Describe your current research topic in one sentence

2. The apocalypse has occurred and all economic institutions have been destroyed. How would you rebuild the economy?

3. What kind of tree would you be to maximise your personal utility?

4. What are your thoughts on Haggis?

Stefania Simion

Lecturer in Economics

1. I am currently working on a project which analyses how the recent changes in the funding of higher education in the UK have affected student outcomes and whether there have been any distributional effects by socio-economics status.

2. As human capital is one of the main drives of the economy nowadays, probably the first thing I would do, would be to invest in early pre-school education, to provide equal opportunities for all individuals at an early age and then to make sure that everyone has access to schooling of high quality.

3. Cherry tree

4. YES

Leonardo Felli

Head of Economics

1. My current research focuses on the integration of immigrants in society looking at both the intergenerational success of immigrants, mainly in the US, as well as at the intermarriage of immigrants with members of the local population within a number of European countries.

2. I would suggest to start from the most basic legal institutions, the Courts, that can provide the underlying enforcement of the most basic of all economic activities: trade.

3. The Olive Tree

4. I only tried haggis once, unfortunately there are two problems with them as far as I am concerned, I am allergic to gluten and having grown up in Italy I have a clear bias towards mediterranean (Italian) cuisine.

Simon Clark

Professor of Economics

1 Think Love Island with equations!

2 After the apocalypse, I imagine it would be pretty awful: a cross between Lord of the Flies and Mad Max. As Hobbes said, life in the natural state is nasty, brutish and short. Civilisation is perhaps more fragile and difficult to preserve than we realise, which makes the current political climate interesting but worrying. Hobbes might argue that after an apocalypse, we would need a powerful sovereign or autocrat, but that seems to me part of the problem not a solution. Although I do think I would make a good dictator.

3, A game tree, obviously.

4, Haggis is surprisingly tasty. It sounds absolutely ghastly: sheep's entrails wrapped up in stomach lining! But actually it's a perfectly balanced meal: protein from the meat, carbs from the oats and 'tatties' (potatoes), vitamins from the 'neeps' (turnips) and onions. Roll on Burns Night; or just go down the chippie for a deep fried haggis!

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