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Now, Manuel Muniz, who is a young, well less and less young year after year, but nevertheless a young star in the world of international relations experts. I think my dear Manuel, that you did an internship, more than that, at IFRI some years ago and you have been very successful at the Kennedy School, at Harvard anyway, working with Karl for a number of years. Now, you are back home in Spain and we are very eager to listen to your remarks.

Manuel Muniz

I thought that the past couple of days were very interesting and it sort of reaffirmed something that I have seen at most of the debates on global issues I attend, with some very particular features I saw here. I think this is the backdrop to most of our discussions, which is what Karl mentioned, the weakening of the international liberal order, produced by two forces fundamentally. One is that it is external or the siege of the order by the rise of illiberal powers, and China is there. I will focus on China fundamentally in my remarks but also, I would add Russia and I would probably add the failures of the Arab Spring and the democratic regression we have seen in the Arab world. The only country that has undergone revolution in the Arab world in the past few years and has come out of that event with more rights and stronger democratic institutions is in fact Tunisia. I am not going to go into these cases, but it is an interesting external landscape to this order that looks far less liberal and much more questioning on the order.

The second force is internal, and it is a real implosion of the liberal order from within. I think that Trump, Brexit and developments in Spain, France and other places, are a manifestation of this. This is just a growing number of citizens within liberal democratic countries that are beginning to question fundamental features of that order, whether it is porous border and cosmopolitanism or free trade, free markets or in some instances, democracy itself.

Let me focus on the external dimension and China for a moment, because I thought it came-up during our discussion, but in particular there were a couple of sessions on the first day that I thought were fascinating. As you know, people in this field are sort of wondering whether the US and China are headed to a collision, what a colleague at the Kennedy School, Graham Allison calls the Thucydides's Trap. I did not buy this thesis because I bought the interdependence thesis, that these countries are too interdependent both in terms of their supply chains, their financial markets, their public debt markets. However, there are a number of features in the relationship between these two that actually lead me to think that this outcome, growing tension and possibly conflict, is far more likely than we think. I divide them into two categories, one is developments in the realm of economics and the other is in politics. I will focus on the economy for a second and in both instances, you will see technology and innovation interwoven into the argument, because that in my mind is completely changing features of the economy and political dynamics that are affecting geopolitics.

I will start on economics. On the economics there are three issues that I think are essential and they are odd and unexpected. One is that the digital economy is producing the clustering of knowledge and this is something we thought would not happen. We thought that the world was going to be flat and the digital revolution was going to make geography redundant or unimportant when it came to the distribution of economic opportunities. People would connect to productive processes and they would unplug, and they could almost be anywhere geographically. Counterintuitively, the data from the last decade or so points to the exact opposite. The digital economy is producing these very tight clusters of knowhow and knowledge. We think this is occurring because there is a particular type of knowledge called tacit knowledge, which is knowledge about particular industry practices or technical knowledge that is so specific that it is only valuable when it is exchanged in very interdisciplinary tight settings, in the cafeterias and corridors of research centers and innovative corporations. In Spain by the way, we have been having a big debate about something called



the 'emptied Spain', which is the notion of the provinces being sucked dry of people who are drawn into the larger cities, Madrid and Barcelona and the periphery being left behind. If I could show you a map of the US right now and the economic growth over the last few decades, that topographical map would show you these huge valleys and suddenly these spikes in very particular places, Cambridge, Massachusetts, Silicon Valley, the large cities, etc., in Shenzhen. This is relevant for many reasons for the China-US collision. I think it is relevant because we are seeing these two countries beginning to compete ever more radically for these clusters and they turned the global economy into much more zero-sum games.

That is one trend, the second is the clustering of the concentration of productivity growth. In my mind, this is extremely relevant, and we tend to not read into the geopolitics of this. As you know, economists have been engaged in this very long debate about why productivity growth seems to be stalling or slowing despite technological advancement. The OECD went back and tried to understand this process. They segregated the corporate sector in advanced economies into two groups of firms, one that they called frontier companies, which are less than 5% of the total number of corporations in advanced economies and the rest they called laggard companies. Frontier firms were the ones where productivity had grown the most. What they found and I think this is really fascinating, is that that small group of corporations saw productivity growth in excess of 30% in the last 10 years; the rest saw no productivity growth. Why is this relevant? Because it reveals an oligopolistic if not outright monopolistic tendency in digital markets, productivity to concentrate in platforms in companies that collect, process and use data. Most of these frontier companies are in the US and China. Again, if I could show you a list of the 20 largest technology companies in the world, they would all be Chinese and American, not a single European company on that list. This is very significant for Europe, but it is also very significant for global geopolitics because it means a much more zero-sum economy, where you are competing for the frontier of the tech space. China and the US are competing for that space head-on, but particularly after China approved its Made in China 2025 strategy and made that explicit in a document where it states that it wants to dominate the cyberspace, robotics, AI, etc. By the way, I know for a fact that that particular strategy created huge concerns in the US and not only in the Treasury and the Commerce department, but also in the State Department and the National Security Council. It is a geostrategic issue for the US. These two countries are going head-on for dominance of that space.

The third trend is that we are also seeing a concentration of transfer. If I could show you a map of the world with the most successful start-ups, the unicorns and their geographic locations, almost all of them will be in China and the United States. The centers of transfer and innovation at start-up level, has also been segregated geographically.

Why are all these things significant? Because it basically draws a highly-competitive world, particularly for the dominance in the tech and innovation space. However, the collision between the US and China does not stop there because there is a whole set of issues around the politics of this. There have been a number of articles with people saying, all this fear-mongering about China in the West is like what happened with Japan in the seventies and eighties. Then everybody will relax when they see that actually Chinese growth slows down. It actually has nothing to do with the Japanese case, to a large extent due to the politics of China. Here I also want to mention three things. One is China seems to be defying the thesis, a very widely held one among political scientists, that when countries reach a certain level of wealth particularly measured in income per capita, that produces a complex middle class, that is too complex to be managed by centralized authoritarian regimes. Hence, you have a democratic transition. China is approaching the levels of GDP per capita where we should see that, and it is not occurring. I think the strategy in the West has been convergence, we would open our markets and the WTO to China, because eventually that would produce political convergence. However, we are not seeing that, and I think that is what is leading to this major shift.

I am going to be very brief on this, the second two points are the use of technology in China for repression. The famous China surveillance state, as you know they are registering the entire Uyghur minority in Xinjiang, with facial and iris recognition tools. *The New York Times* just revealed that their DNA has been sequenced and the level of aggregation of this data is fairly high up, so it is the Interior Ministry, the police. This is not the most interesting, which is the third issue. If you think of political systems as systems of information, which is what they are to some extent, they are meant to procure information about how people feel and their concerns and feed into decision-making bodies. That is what free press and free association are. Democracy is a particular system of information. What some Chinese colleagues are beginning to claim, and we saw a bit of that here, is that through big data and AI, China has a system of information that is superior to democracy. Some Chinese colleagues of mine will say to me, we know what our citizens



want and need without the messiness of democracy and elections. We are going to do that through data and AI. This is what transpires in some conversations, it is an alternative model infused by technology and making heavy use of that.

I will end on this note that I think that the collision with China, and I think some people in the US see this far more clearly, is very structural and is connected to very deep trends in how economics work in the digital area and in the capacity for technology to change the sustainability of an authoritarian regime. I think that means that the collision is going to be fairly structural and sustained over time and I think that is one of the backdrops to this conference.

Thierry de Montbrial

Thank you, Manuel. You will now all understand the name of his university chair. I did not say it before because it is easier to understand afterwards, so he is the Rafael del Pino Professor of Practice of Global Transformation. That was a good presentation and I do not know if there are that many university chairs of global transformation. Thank you, Manuel.