# Global Macro 2019
# The Blogposts

# Preface

*During 2019, the global economy marked a number of important anniversaries. The most important of these was the Bretton Woods Agreements which 75 years ago created the architecture of the modern, integrated global economy. The anniversary coincided with accelerating populism, anti-multilateral and nationalist policies, and growing concerns about debilitating trade wars. It also coincided with a perceptible shift towards adoption of distributed ledger technologies to issue currencies and deliver secure payments through automatic contract execution.*

*The word of the year could easily have been "sovereignty." Technology pundits championed the rise of "data sovereignty," Brexiteers championed the return of sovereignty from the EU in Brussels, and protectionist policymakers around the world highlighted their efforts to wrest control of national policy priorities from external forces.*

*The six essays in this book were all written in 2019. They attempt to provide context and facilitate efforts to navigate through these mutual, conflicting macrotrends.*
*2019 was also the year that our patented policy risk measurement platform went live. This meant that we were able to catch each inflection point and policy pivot as it arose, globally and in real time. The activity generated endless opportunities to blog about the developments across multiple channels. From the Bretton Woods @75 blog hosted by the Bretton Woods Committee to the Atlantic Council's New Atlanticist to Medium to our own company blog, we contributed analysis and policy trend projection at every stage along the way.*

*Heads of state and government at the Group of Twenty in midsummer executed a parallel policy shift. But the focus on digital policy and artificial intelligence was overshadowed by media coverage regarding trade policy, personalities, and petty dramas. Only those paying close attention were prepared for the additional stablecoin policy developments during the third quarter of 2019 when FSB policymakers met for their last in-person plenary session of the year.*

*What will 2020 hold for geopolitical realignment? You can count on BCMstrategy, Inc. and our automated, patented process to monitor and measure daily global activity in this (and other) policy areas so that we can identify inflection points and policy pivots as they emerge....even if mainstream media misses the moves.This ebook collects in one place all the blog posts we published during 2019 regarding global macro analysis. It provides a quick and easy way to catch up quickly (or refresh recollections) regarding the sequence of events that create the foundation for whatever happens next in 2020.*

# About BCMstrategy, Inc.

*BCMstrategy, Inc. is a Virginia-based start-up company dedicated to bringing the data revolution to the policy intelligence business. We do this by using patented technology that automates both the process of monitoring policy developments and the process for generating quantified, analytical data. The result is a set of data visualizations and discovery tools that help investors, advocates, and journalists read smarter, connect the dots faster, and generate better strategic analysis than their competitors using more traditional monitoring and analysis mechanisms.*

*The platform began generating data in January 2019. This means we now have a full year of analytical data upon which we will build additional products and utilities as we grow.Access to the data and related insights occurs through a variety of products designed to meet specific needs and interests. These are:*

***Priority: Insight, Not Urgency**: A suite of analytical reports provides weekly and monthly analysis of policy trends. These products are designed for advocates and capital markets macro strategists seeking data-driven, objective, and transparent analysis of emerging policy trends. The research reports regarding global **FinTech RegTrends** (monthly) and cryptocurrency/payments regulation (the **C | P | C Report,** weekly on Friday afternoons) are distributed via the BCMstrategy, Inc. website as well as through the Interactive Brokers trader workstations. Analytical reports regarding **Brexit** policy shifts are distributed in partnership with, and exclusively to clients of, Brexit Partners.*

***Priority: Daily Access to Data**: Direct access to the daily data feeds and data visualizations. Designed for macrostrategists seeking daily insight into policy momentum and unlimited time series generation. Available through a **Pilot Program** and an **Early Adopter Program** exclusively through BCMstrategy, Inc. Current delivery methods via web access and daily email notifications will be expanded for enterprise-wide deployments via APIs in 2020. Participants will also receive opportunities to beta test new data visualizations and insight discovery tools as they become ready.*

So far in this blog, posts have focused on how advanced technology makes it possible for knowledge professionals to understand better and faster the policy developments around them. Disruption has been addressed as a technology issue. Today, we expand the focus.

Today's post focuses on how multiple macrotrends are coinciding to deliver disruptive impacts. All those trends share one common element: all trends point towards distributed (rather than centralized) shifts. This post thus expands on issues first raised in blogposts earlier this year for the Bretton Woods Committee, the Atlantic Council, and the Washington International Trade Association.

**Welcome to the Distributed Age.**

The so-called "fourth industrial revolution" mobilizes technology to empower a broad range of private actors to reimagine the relationship between the individual and the government. Technology makes it possible to consider new ways to think about how individuals can and should delegate their sovereignty to governments and how governments can and should cooperate across borders to pursue shared objectives.

This can create disruptive challenges since governance structures domestically and globally require centralization of authority in order to function. The more a government relies on strong central structures, the more threatening it will find the distributed era.

## Background – The End of the Centralized Age

It is deeply ironic to see the distributed age arrive in a year marking multiple major milestone anniversaries. The main milestones include:

1. Euro (21 years)
2. NATO (70 years)
3. DDay (75 years)
4. Bretton Woods institutions (75 years)
5. San Francisco Convention (74 years)
6. Georgetown University's School of Foreign Service (100 years)

These milestones laid the foundation for a set of centralized institutions designed to foster increased cross-border economic and political integration.

Yet the fabric of cross-border cooperation has never seemed so thin. Technological communications increase the connections among people and ideas across time zones and geographies. But this interconnectedness has also generated backlash against international institutions from the World Trade Organization to the European Union to the Basel Committee on Banking Supervision.

Let's be clear -- the last 75 years have not been full of stability. Increased cross-border integration certainly expanded opportunities for economic growth. But it also generated vulnerabilities to cross-border spillovers which have occurred nearly once a decade since the late 1960s. Policymakers have periodically puzzled over the challenge of how to handle oversight of financial institutions that are national in corporate form but international in their reach.

The tension between cross-border economic activity and national sovereign laws has long contributed challenges to policymakers charged with safeguarding financial stability. The tension initially was resolved by creating informal cross-border institutions to generate international common minimum standards. A brief history of the main cross-border financial regulation institutions can be found HERE.

However, as the financial crisis made clear, cross-border consensus on minimum standards is meaningless without parallel political will to share or delegate enforcement authority.

Today's macrotrends indicate that such centralization is politically impossible and potentially undesirable. Across a broad range of sectors and interests, the prevailing trend politically and technologically is all about decentralization. The conundrum, of course, is that the technology itself depends critically on substantial centralization (cloud computing, platforms, telecoms infrastructure) with private sector entities rather than governments at the center.

The next decade will determine whether the post-war cooperation structures can evolve to accommodate more distributed frameworks for cross-border coordination. History suggests strongly that a failure to evolve will generate tensions for more dramatic change.

## Macro Trends Pointing Towards Decentralization

**1. Geopolitical Rebalancing (aka, economic sovereignty)**: Much has been written about China's global geopolitical ambitions in recent years. Political scientists and international relations theorists have been prolific in describing how China's economic and technological growth inevitably lead to tensions as it creates a counter-balance to Western (particularly American) leadership.

When China articulates its priority is to exercise "economic sovereignty" or it creates its own international organization (the Asian Infrastructure Investment Bank), many bemoan the centrifugal forces on display that spin away from the accepted post-war institutional structure (particularly the IMF, the World Bank and the WTO).

The Chinese government's recently released White Paper accentuates these concerns. It delineates an approach to economic sovereignty focused on bilateral rather than multilateral negotiations in which "mutual respect...(for) each other's social institutions, economic system, development path and rights, core interests and major concerns...(and) a country's sovereignty and dignity must be respected."

> China is not alone in seeking to define a new, distributed paradigm for economic sovereignty independent from centralized international entities. Nor is China the first to push back against the post-war institutional structure.

Populist political trends from *both* the left and the right have been pushing back against an expanding international policy perimeter since the late 1990s. Consider these developments placed in chronological order:

--**Seattle Riots/WTO (1999, ongoing)**: Left-leaning activists protested, then rioted, against the World Trade Organization and increased cross-border trade integration. Their intellectual heirs continue to protest a range of trade agreements and individual issues within trade agreements, joined by far-right activists and protestors (e.g., phyto-sanitary standards, dispute resolution processes, environmental and labor standards). Whether on the left or the right of the ideological spectrum, these advocates share with the Chinese government (ironically) a priority for placing a primacy on policy choices made at home rather than defined through a consensus-based cross-border negotiation. They reject growth models premised on cross-border economic integration – which is the foundation of the post-war economy, compliments of the Bretton Woods agreements – when they perceive that such growth and integration comes at the expense of preferred local priorities.

--**EuroArea Crisis (2010, ongoing)**: The financial crisis shone a spotlight on the foundational weaknesses underpinning the common currency in Europe. Lack of political will to share fiscal liabilities when the common currency was founded persisted throughout the financial crisis. To this day, policymakers continue to reject policies that would create a common deposit insurance system within the European Union system and the bank resolution system remains incomplete.

For example, as noted in this Breugel analysis, it is unclear how EU authorities would resolve a financial institution which could not produce sufficient collateral to support central bank liquidity assistance. In addition, as Spain's central bank governor recently noted in this speech, many of the EuroArea banking sector vulnerabilities have receded precisely because the solutions have followed decentralization or fragmentation paths. Banks in Europe decreased substantially their cross-border claims, which means that the majority of their exposures are now to borrowers in their home countries.

> The EuroArea's common currency was stabilized through a distributed structure that relied on capital markets for funding rather than central government solutions.

National governments agreed to establish the European Stability Mechanism and sit on its board, but they did not agree to share responsibility for funding the entity. Instead, they merely authorized the entity to raise funding in the capital markets. As such, the European Stability Mechanism is a *distributed* entity.

--**Brexit (2011, ongoing)**: The referendum results and the rhetoric surrounding Brexit in the UK highlight a range of populist policy priorities that many find abhorrent as well as economically undesirable. However, the origins of the Brexit policy choice within the UK government date back to financial crisis. The policy drivers indicate decentralized decision-making (also known as "financial sovereignty") was at the core of the initiative.

As noted earlier this spring in this Atlantic Council post, "Before migration issues, xenophobia, unicorns, Russian Internet trolls, extremist politicians, trade policy, Northern Ireland, the Withdrawal Agreement, indicative votes, and the customs union dominated the Brexit dynamic, British and EU leaders were locked in opposition regarding governance and sovereignty issues with respect to who exercises what kind of regulation over the euro and the financial system in which the euro trades." The UK arrived at the December 2011 European Union summit seeking to safeguard UK sovereignty over financial sector policy. Euro area heads of state arrived seeking to save their common currency. Their interests were not aligned. For more information, see this article from *The Telegraph* which published a leaked document showing the UK government demands.

Economists may be united against the Brexit initiative, but at the political and legal level, policymakers both in Europe and in the UK increasingly seem to welcome the decentralization opportunity which will enable them to develop norms and standards without having to compromise with each other. Consider this speech from France's central bank governor. He outlined three pillars for the European Union's "financial sovereignty" after Brexit which included a distributed system for generating equivalence decisions which grant access rights to foreign financial institutions into the EU financial system as well as detailed elements for a Euro-centered suite of initiatives.

--**Central Bank Independence (2010, ongoing)**: The key role central banks played in maintaining financial stability during the 2008 crisis shone a spotlight on how these institutions operate. The modern era of central banking institutionally centers around twentieth century mandates which guaranteed central banks independence from political interference in their decisions to determine interest rates.

Increased populist pressure to rein in that political independence paired with the possibility of floating central bank digital currencies that create direct relationships between central banks and individual people is creating the incentive for central banks to start considering more distributed mechanisms for pursuing their policy objectives. For example, Bank of England policymakers indicated recently that "There is scope to decentralise more of central banks' activities, giving them greater reach, voice and engagement locally." Intriguingly, this speech cited as a precedent decentralized community-based initiatives at the Federal Reserve.

In other words, geopolitical rebalancing goes far beyond the economic rise of China. Shifts in economic and political placed pressure on all government entities accustomed to command-and-control negotiated solutions.

**2. Geopolitical Rebalancing (Non-State Actors)(aka, individual sovereignty)**: Geopolitical rebalancing is not limited to sovereigns. A growing range of non-state actors diversify the number of entities ready, willing and able to provide alternatives to government-based solutions.

Some of these non-state actors are themselves centralized entities (e.g., non-governmental entities like charitable foundations and large corporations). These entities have the geographic scope and funding to provide solutions to underwrite initiatives designed to alleviate urgent needs like clean water, malaria treatments, and sustainable development solutions.

But the most consequential non-state actors ultimately are individuals.

> Whether it is small scale donations from a mobile device or large-scale cryptocurrency mining operations, individuals increasingly have the ability to opt out of established centralized systems in order to generate a more direct impact regarding their preferred cause than voting for an elected politician could provide.

In many ways, the trend towards distributed decisions regarding data sharing or charitable contributions merely uses technology to implement a bedrock principle of Western-style democracies: sovereignty starts first with the individual who delegates that sovereignty to government for specific shared purposes (e.g., building and maintain roads, foreign policy, emergency services).

In countries that follow this principle, legitimacy is derived from the consent of the governed, not from the effectiveness of government services. The mobile and data revolutions make it possible for less sovereignty to be delegated to government because in theory people can accomplish more merely with the assistance of technology.

The less optimistic analysis would suggest that people prefer to rely on technology to perform certain functions because their trust in government has been dented severely by the recent financial crisis.

**3. Distributed Ledgers (aka, data sovereignty)**: Consider the roiling debate regarding data privacy. Who owns the right to an image of your face or your iris? Who owns the right to information regarding your health and spending habits? Increasingly, advocates for distributed ledgers make the case that individuals going forward will have far more control over their data because distributed ledgers empower them to grant permission to specific entities for specific purposes.

For example, a health insurance company might receive authorization to receive your fitbit data but a marketing company or the government might be denied the same information.

Fast forward to a world where distributed ledgers are used by individuals for daily purposes. This is where things become tricky. At present, fiscal and monetary policy decisions are made by policymakers using aggregated data collected from cash registers and banks and other economic agents.

> In a universe where those transactions are effected within a distributed ledger, if the individuals do not consent to share the data with the government, policymakers will over time have less information on which to form their decisions.

The disruption to economic policy making could be quite substantial.

**4. Services-Based Economies (aka, professional sovereignty):** Finally, the multilateral economic system itself is experiencing growing pains associated with the distributed age. Advanced economies today are driven predominantly by services rather than manufactured goods. Even when those services are delivered by large companies (e.g., consulting), they are performed by individuals and teams often located in different geographic areas. Yet their work may be governed by regulatory standards emanating from a different jurisdiction.

From the post-war era to today, the underlying assumption has been that the international trade framework was moving steadily (if slowly) in the direction of increased economic interdependence. But the importance of local regulatory standards and legitimate national security issues raises the possibility that there might be a limit to how much and what kind of cross-border economic integration is possible at the global level if not the regional level.

> Since economic activity is distributed well past national boundaries, national regulatory standards and policy choices create more frictions than they did in the past and across a larger range of economic activity than in the past.

The Bretton Woods system is ill-equipped to handle the shift towards a services-based economy. As discussed in this Atlantic Council post, efforts to extend the traditional Bretton Woods trade policy framework to the services sector continue to experience substantial difficulties. Those difficulties are only increasing as the bilateral trade dispute between the United States and China increasingly begins to focus on strategic 21st century economy issues like forced technology transfer and intellectual property protections, as noted in this Atlantic Council post.

## Conclusion

It is hard to escape the conclusion that an inflection point approaches quickly. It is also hard to escape the conclusion that the Bretton Woods system must evolve in order to continue supporting welfare-enhancing cross-border economic activity.

The traditional frameworks for international governance both at treaty-based international organizations and at informal standard-setting bodies will have to evolve if they are to survive and thrive in a decentralized world where political legitimacy is determined at least as much by activity using handheld devices as it is by citizens and voters.

We are still very far away from concrete policy proposals. Shifts in policy in this area will remain incremental throughout 2019, and possibly 2020. The best way to manage exposure to unanticipated policy shifts is to watch closely the evolution of technical payment systems policy over the near to medium term.

# The Relevance of Bretton Woods in a Distributed, Cryptocurrency Age

The 75th anniversary of the Bretton Woods Agreements has occurred in a year when cryptocurrency projects (including, but not limited to, the JPMCoin, Libra, Bitcoin, Ethereum, and various other StableCoins) are gathering momentum. This cannot be a coincidence.

Essays for the Bretton Woods Committee by myself, respected journalists like the FT's Gillian Tett, eminent current and former policymakers such as Minister Shanmugaratnam, and advocates like the Chamber of Commerce have all agreed on a fundamental point: centralized mechanisms for managing cross-border policy coordination created by wartime command-and-control economies must evolve in order to remain relevant in a decentralized Distributed Age.

Alternatives exist. An increasingly broad range of economic actors have the technological means and sufficient financial support to "vote with their feet" and shift towards alternative (and potentially less transparent) mechanisms for transacting business, as the Libra proposal indicates. Significant shifts towards distributed ledger technologies and alternative token currencies at a minimum would deprive policymakers of critical information for monetary policy formulation. They could also erode further the thinning legitimacy of the Bretton Woods organizations.

Before declaring defeat, it is important to recognize that the upstarts from the cryptocurrency community seeking to unseat central banks have their own limitations. The technology driving issuance of alternative currencies may be new and different, but the issues they create are familiar to the multilateral economic policy community. Rather than competing in a fight to the death, both sides have much to learn from each other.

## Currency Boards and Currency Baskets – Nothing New Here

Hubris among the electronic currency pioneers leads many to proclaim that what they are doing is without precedent. Let's debunk that myth first.

**Private sector issuance** of tokens accepted as stores of value and media of exchange have a long and venerable (but not necessarily stable) history. When I visited there in 1999, the Central Bank of Oman's museum in Muscat displayed a range of physical tokens accepted as money in this emirate across the millennia from sovereign and private issuers that stretched the known globe at the time (India, the Roman Empire, Egypt, Persia, etc.). Legendary bankers from Venice and Milan minted their own currencies, lending from London's Lombard Street until the Bank of England was created. Banks across the U.S. frontier issued their own currency throughout the 19th century in the "free banking" era, contributing to considerable economic instability when those banks collapsed.

# The Relevance of Bretton Woods in a Distributed, Cryptocurrency Age

**Currency baskets** are not new either. Markets have long created – and traded shares in – currency baskets as a mechanism to hedge exchange rate exposures. The Special Drawing Right (SDR) issued by the International Monetary Fund is of course the grande dame of the sector. The other major successful official sector currency basket (the ECU or European Currency Unit) served as the precursor and effective pilot project for the euro.

Finally, **currency boards** have been tried and mostly failed throughout the 20th century. Examples include sterling's ignominious exit from the European Exchange Rate Mechanism (ERM), Argentina's problematic experience, and of course the U.S. dollar's exit from the Bretton Woods gold standard. Hong Kong's successful multi-decade success with a currency board suggests at least a small open economy with political stability can succeed. Current unrest in Hong Kong may yet test that currency board's resilience. The history of holding a specific, fixed peg to an external reference rate suggests at a minimum that launching a currency board structure is not to be undertaken lightly.

Students of economic and monetary history and professionals in this arena understand well that any currency project depends first and foremost on credibility and trust afforded to the issuer. Markets migrate away from mechanisms they distrust. Migration can be gradual or volatile. Institutions that fail to adapt to shifting market sentiment can find themselves quickly on the wrong side of momentum, as the Bank of England discovered on the path towards ERM exit.

## Innovations Requiring Evolutionary Responses

A wide range of economic actors increasingly seeks more efficient instant payments and a more inclusive financial system. In an increasingly politically polarized world, many also seek an apolitical token as a store of value and a medium of exchange not issued by an individual sovereign. And in an increasingly barbell-like economy with a shrinking middle class, some seek better ways to channel funding to humanitarian and development needs as described in this Medium essay. These experiments in alternative currencies must be taken seriously, even when they seem over-stated.

Many in the Bretton Woods ecosystem may view this as a threat, but the situation also provides opportunity for renewal and rejuvenation. Minister Shanmugaratnam and his Eminent Persons colleagues were right in October 2018 when they made the case for evolution by noting that the international financial institutions have a "unique ability" and established processes for identifying needs and delivering assistance. These multilateral entities provide a relatively transparent and accountable framework for identifying shared priorities which align with the most idealistic instincts of the Millennial generation. The SDR's recent inclusion of the Chinese yuan and its multi-decade history as a de facto digital currency (albeit with limited distribution) suggests significant scope yet exists for innovation and evolution that meets a growing market need.

# The Relevance of Bretton Woods in a Distributed, Cryptocurrency Age

Policymakers have much to contribute to the cryptocurrency conversation. Distributed ledgers owned by private sector entities – and the currencies affiliated with those ledgers – could encounter difficulty delivering the transparency and accountability that civil society has come to expect from major economic agents. As my colleague on the Bretton Woods Committee Susanna Cafaro has rightly noted, accountability frameworks for multilateral organizations are far from perfect and continue to evolve.

Her logic (with which I agree) implies an important corollary: elected sovereigns are far more likely to respond to civil society needs than for-profit corporations whose duty of care formally extends only to shareholders. Even when a corporation chooses to prioritize grants and charitable donations (as the Libra Association has chosen to do), these distributions only occur after costs (including infrastructure investment) have been covered. Funding to cover global public goods like humanitarian relief and a broad range of development needs is only a mission-critical top priority for development banks and non-governmental entities like the Red Cross and Medecins Sans Frontiers. Blockchain-based currencies cannot change this alignment of interests and priorities even when they improve the efficiency of the payments mechanism and deliver insulation from corruption, graft, and misuse.

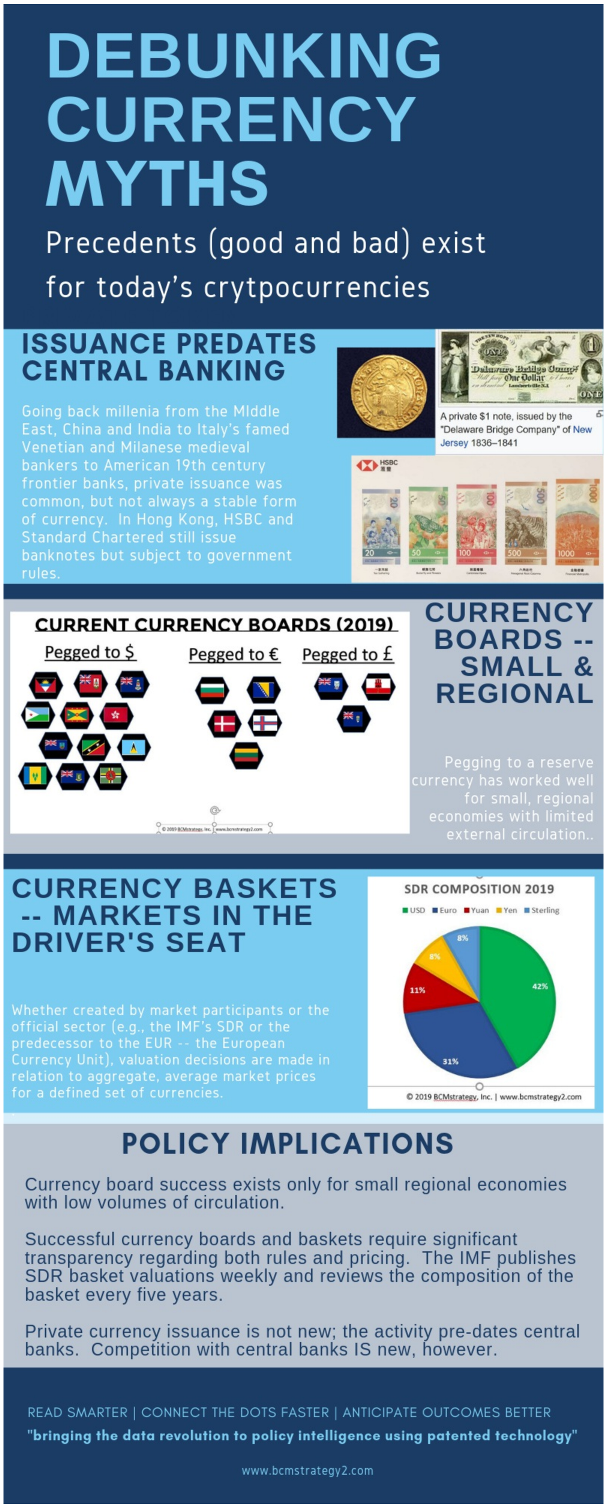
The challenges of maintaining a successful peg and supporting a sufficiently diverse, resilient, liquid secondary market are not insignificant either. Hard-fought experience could help inform diversification in the currency markets in a manner that delivers not just institutional evolution among the IFIs but also would help ensure that upstart currency issuers do not generate sources of instability for more established currency markets.

Policymakers are not passively watching these developments. Various respected central banks globally have spent the last three years exploring how best to adapt to the Distributed Age through central bank digital currencies. As my Bretton Woods colleague Ousemene Jacques Mandeng, the Bank of Canada, the National Bureau of Economic Research, the Bank for International Settlements, and others have rightly noted over the last two years, technological innovations provide central banks with additional avenues for distributing central bank liquidity even as they create the potential for novel (and potentially problematic) direct relationships with individuals that will place pressure on traditional central bank political independence.

## Conclusion

This is not a Game of Thrones zero-sum video game. Electronic currencies hold the potential to change the supply and demand functions for currencies and for economic flows. In a technology-driven world, the binding constraints on supply and demand functions increasingly will be imagination and access to technology, not necessarily by the traditional components of economics (raw materials, labor, capital). Substantial shifts in motivation for economy activity beyond rent-seeking and the profit motive could also require deep re-thinking of how supply and demand functions operate. This is a rich vein to mine for both distributed ledger pioneers and their counterparts in the Bretton Woods institutions.

Both sides of the debate have much to learn from each other, for mutual benefit. History tells us that currency regimes tend not to evolve gently; they are prone to destabilizing ruptures. Such an outcome is not optimal for anyone. The opportunity exists at this juncture to think creatively and collaboratively about new horizons for economic activity. If the new leadership of the Bretton Woods organizations operate creatively and nimbly, they will lay the foundation for an evolutionary shift as significant as the one initiated in the remote New Hampshire mountains 75 years ago.



# When the G20 Met AI

While headlines from the Group of Twenty (G20) summit in Osaka, Japan understandably focused on the latest trade war truce between the powerhouse economies of China and the United States, media coverage unfortunately overlooked a strategically significant trade policy pivot at the summit.

The group of global policy makers in Osaka acknowledged the growing importance that the digital economy plays for supporting economic growth and innovation, and the need for the trade policy paradigm to account for this shift. While a substantial number of key policies needed to complete this shift remain incomplete, by turning their attention toward the digital economy global policy makers could help reignite discussion at the global multilateral trade level at a time when most are obsessed with bilateral negotiations.

For the last year, the *New Atlanticist* has consistently highlighted the important nexus among trade, the digital economy, and services for advanced economies (particularly the United States and the European Union) as well as China. My colleagues and I argued in July 2018 that commonly agreed standards for trade in services can create the foundation for a more constructive set of transatlantic trade relationships while providing support for Chinese growth. The key to progress regarding services trade is as much about finding ways to make domestic regulatory frameworks interoperable as it is about successes in the World Trade Organization's Trade in Services Agreement.

Policy makers have been making quiet, steady progress throughout 2019 so far regarding these issues. These actions laid the foundation for the policy shift articulated in Osaka on June 29.The WTO has taken steps to increase transparency regarding non-tariff regulatory barriers in order to provide a foundation for concrete, data-based policy discussions. The European Commission has been quietly increasing its efforts to enhance transatlantic regulatory cooperation, starting with technical standards that support the broader ongoing discussions regarding manufacturing sector conformity assessments.

Additionally, the bilateral US-China trade tensions that have been much on display this year have not just been about tariffs on old-economy sectors. The most intractable issues have been focused on services policy issues in sectors strategically significant for supporting twenty-first century growth as noted in this post and as highlighted in the White Paper released by the Chinese government on June 2, which championed the importance of “economic sovereignty” and national standards.

## The Osaka Declaration

Traditional trade policy experts will find the Osaka Declaration underwhelming. The Declaration notes the importance of addressing the dispute resolution problems at the WTO without identifying how the impasse can be resolved. The Declaration indirectly recognizes accelerating centrifugal forces away from centralized, multilateral solutions by noting that bilateral and regional free trade agreements are "complementary" to the broader goal of promoting free trade. G20 leaders chose not to repeat their trade ministers' language from earlier this month identifying "urgency" regarding WTO reforms generally (Ministerial para. 54) or the WTO committee work reforms specifically (Ministerial para. 56).

In other words, G20 leaders implicitly underscored the impasse at the multilateral level by failing to identify concrete measures that might break the impasse.

To be fair, G20 leaders in these areas only repeated verbatim the Ministerial Statement on Trade Policy issued in advance of the summit earlier this month. The news cycle fixation on the bilateral China/US trade truce illustrates the scale of the challenge. It is not just policy makers focused on bilateral (rather than multilateral) issues; pundits, experts, and stakeholders are also focused primarily on bilateral matters.

## A Shift Towards Services and The Digital Economy

The good news from the Osaka Declaration is that policy makers are pivoting hard and fast towards a new set of issues on trade where policy interests may be more aligned. New issue areas traditionally provide opportunities for constructive engagement because entrenched positions have not yet had a chance to develop.

Trade policy experts focused on the services sector and the digital economy will be delighted with the Osaka Declaration because it indicates that policy makers are shifting their attention away from trade in goods in order to craft a new policy foundation focused on the twenty-first century digital economy. Consider two examples from the Declaration:

**Paragraph 6** underscores the importance of taking a holistic perspective that includes "all components of the current account, including services trade and income balances" when evaluating economic and trade policies. As many have noted, the United States holds a persistent and substantial bilateral trade surplus with China when services are included. Data from the United States Trade Representative indicates that in 2018 the United States also held a $60 billion surplus in services trade with European Union countries as compared with a $169 billion goods deficit. Consequently, a shift to a more comprehensive assessment of trade relationships holds potentially constructive implications for transatlantic trade talks as well. **Paragraph 11** stresses the "importance of interface between trade and digital economy" and indicates that G20 policy makers seek to "further facilitate data free flow."

These are small but significant shifts in policy attention.

## The Challenges from Here

Yet it is too soon to celebrate. The policy shift articulated in the Osaka Declaration is not backed by concrete initiatives. Moreover, the policy issues raised by increased attention to digital economy issues promise to highlight the growing tension between national standards and multilateral efforts to generate cross-border consensus.

The Osaka Declaration confirms that the Distributed Age featuring less centralized decision-making structures has indeed arrived. The Osaka Declaration indicates the international system is evolving accordingly, with a pivot to non-tariff regulatory barriers at its core.

For example, G20 policy makers committed in Osaka only to "support the sharing of good practices on effective policy and regulatory approaches and frameworks...including regulatory sandboxes" (para. 12). These are profoundly national regulatory initiatives which to date have be used at least as much by policy makers to foster competition across jurisdictions as opposed to promoting consistency in standards across borders.

The "AI Principles" originally articulated by the Organization for Economic Cooperation and Development (OECD) were also endorsed, but the Declaration underscores that the principles are "non-binding" (para. 12).

Finally, efforts to promote increased cross-border data flows have been positioned with the goal of achieving "interoperability" (Osaka Declaration Para. 11, Ministerial Statement para. 16). This goal lays the foundation for intense bargaining among Chinese policy priorities for national standards regarding intellectual property rights, US national security priorities, and European priorities for privacy and data protection. These competing interests all point towards tactical tensions in future talks.

## Conclusion

Increased transparency regarding good practices and interoperability among different national systems may generate a pragmatic way forward for the global economy. It may also provide an opening for renewed transatlantic leadership, where many of the relevant standards are far more well-developed and in many cases are compatible with each other. Engaging in open, honest exchanges of view may also reinvigorate the multilateral process at the WTO and elsewhere because these entities provide the only structures for sustained discussion.

Expectations for quick action, however, need to be tempered. The differences in values and priorities at national level run deep. Trust among the major participants in the trade policy debate is running low even as rhetorical heat runs high. The current climate for policy volatility lurching between trade wars and trade truces seems set to continue even as policy makers agree to shift gears to focus on strategically significant digital economy policy priorities.

# Sovereignty

Data sovereignty. Financial sovereignty. Regulatory sovereignty. National sovereignty.

These loaded terms creep into today's policy debates across issues and across geographic borders, amplifying increasingly polarized ideological wars within countries large and small.

— Increased control over personal data through permissioning systems (including, but not limited to, distributed ledgers) clashes with government efforts to exert control over and retain access to information in the data sovereignty and data localization debates.

— Policymakers have been wrestling with each other for decades over economic/financial sovereignty issues from the Bretton Woods conference to the OECD debates in 1968 (see this Foreign Affairs article) to today's Brexit quagmire (see this Atlantic Council post and this this Banque de France speech).

— The cryptocurrency craze provides individuals with the means and ability to "vote with their feet" by choosing alternative mechanisms for exchanging value. The only thing that is certain is that policymakers and central banks will not recede without a fight.

Let's all take a deep breath. Step away from the rhetoric and hype. Let's get centered with a little bit of perspective on sovereignty.

*This essay sprints through a few hundred years of political theory and technological advances. It closes by highlighting the promise and pitfalls of the sovereignty rebalancing act ushered in by mobile devices and social media.*

## A Quick History

Merriam-Webster's primary definition of "sovereignty" contains three parts:

(i) supreme power especially over a body politic;

(ii) freedom from external control; and

(iii) controlling influence."

Sovereignty is thus the ability to exercise authority without having to obtain the advance consent of another party. In the political context, it describes the authority to articulate *and enforce* rules by which all people sharing a specific physical geographic area will be governed. As noted in this recent Atlantic Council post, this week's United National General Assembly discussions indicate these issues remain as relevant today as they were in 1648 and 1944.

The Treaty of Westphalia in 1648 ended the Thirty Years War in Europe. It established the foundation for modern nation-states by carving up territories owned by vanquished feudal lords and awarding authority over those areas to the winners. Governance may have been allocated by victory on a battlefield, but rhetoric wrapped the leaders in a mantle of divine selection.

> 18th century Enlightenment thinkers proclaimed an alternative organizing principle. They were the original decentralizers.

Locke, Rousseau, the American Founding Fathers all shifted the center of sovereignty to the individual rather than a divinely appointed or militarily victorious feudal lord. Their social contract theory asserted that people *delegate* authority to government in order to address common needs. By 1783, the Treaty of Paris recognized the first government chosen by the consent of the governed: the United States.

By the early 20th century, certain elected populist governments in Germany, Italy, Japan, and elsewhere were giving sovereignty a bad name by carrying out immoral policies internally and generating destabilizing influences externally through attempted territorial conquest. The end of World War II launched the multilateral era with the Bretton Woods Agreements (which created the International Monetary Fund and the World Bank) and the San Francisco Conference (which created the United Nations and the International Court of Justice).


The door to the Gold Room at the Bretton Woods resort in New Hampshire. (c) 2019 Barbara C. Matthews

Today, many assert incorrectly that multilateral organizations operate independently of sovereign states. Some bemoan the rise of nationalism and the demise of multilateral authorities, positing a universe where economics and geopolitics operated within hermetically sealed environments. Others, from the anti-WTO riots in Seattle on the left to the ultra-nationalist movements on the right, champion national priorities and reject policies purported created and imposed by unelected international bureaucrats.

When the multilateral era began after World War II, some famously proclaimed that "the age of nations is past." The full quote was enshrined in a plaque in a building at my college alma mater: "The age of nations is past. It remains for us now, if we do not wish to perish, to set aside the ancient prejudices and rebuild the earth."

> It was a lofty ideal; it was not invented in Silicon Valley in the last ten years. And it was not entirely accurate.

No multilateral organization operates independently from sovereign states. Ever. Governed by boards comprised of sovereign stages, these entities articulate the political will of governments which exercise delegated authority from the populations that elected them (if they have been elected). ***They are not sovereign; they do the bidding of sovereigns when consensus on the way forward exists***.

Note as well that this was never designed to be an egalitarian system. Voting rights allocate more authority to countries with larger economies (the IMF) and to countries with greater geopolitical power at the start of the Cold War (the Security Council veto powers provided to the Permanent Members of the Security Council -- the United States, the United Kingdom, France, China, Russia).

## The Distributed Age Returns Sovereignty To The People

Mobile devices empower individuals to exercise more of their sovereignty than in the past.

As noted in this Bretton Woods Committee post and in this Medium post, we live in a Distributed Age in which individuals can organize, pool resources, and take action without the help of elected governments...***and without as much compromise as in the past***. People can charge forward with pet projects so long as they can find a sufficiently large community of like-minded people or an echo chamber.

Technology thus amplifies the influence of micro-interests and political polarization; social media turbo-charges it without regard to jurisdictional boundaries or election results.

The mechanism may be new but the dynamic was the center of attention in Federalist 10 and Federalist 51, (the full text appears HERE) by James Madison to support ratification of the U.S. Constitution. Consider in particular Federalist 51:

*If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself...This policy of supplying, by opposite and rival interests, the defect of better motives, might be traced through the whole system of human affairs, private as well as public."*

*The defect of better motives*. In other words: even when individuals or groups of individuals (including governments) have good intentions, their collective action may be counterproductive to safeguarding liberty. It is possible to see a tyranny of the minority drive policy.

Madison and his compatriots would have had a field day with the issues raised by social media and cryptocurrency issuance.

> Social media and distributed ledgers provide perspective on how truly radical the American and French revolutions were and remain. These technologies operationalize a level of individual choice regarding self-expression and economic activity that challenge existing governance structures across economies and political systems.

It is not all good. The altruism that permeates much of the distributed ledger and cryptocurrency communities does not address sufficiently how technology has solved for the Federalist 51 dilemma. Technology also turbo-charges illicit efforts to interfere with the exercise of personal sovereignty.

—Fake news, disinformation, and hacking of electoral systems pose grave dangers to the legitimacy and effectiveness of the voting process, as noted in this Atlantic Council report.

—In addition, increased reliance on "big tech" platforms requires individuals to surrender ownership of key data points and personal privacy to companies that arguably are far less transparent and accountable than elected governments.

—Ironically, participants in distributed ledgers surrender some personal sovereignty to a centralized algorithm that provides no audit trail and no redress in the event of a mistake or a crash.

—By eliminating audit trails, the technology also creates an inappropriate equality between honest, law-abiding individuals and individuals pursuing a range of illicit, illegal activities (including, but not limited to, terrorists and money launderers).

## 21st Century Sovereignty

No matter how distributed we all become, the reality is that we must also all share a variety of spaces. Some of those spaces are physical (e.g., roads) and some are virtual (ecommerce). We need spaces for interaction that deliver reliable, safe outcomes. This means we need mechanisms for articulating shared rules that deliver roads that are safe when autonomous vehicles join the driving community and securities markets and banking markets that are safe from scam artists, thieves, and terrorists.

> Will people really choose to replace one centralized authority (elected governments, which are temporary and can be removed from office via elections) with an alternative centralized authority (distributed ledgers owned, operated, and managed by unelected private sector companies)?

In order to remain relevant and to continue inspiring the confidence of the governed, institutions like central banks and multilateral organizations like the World Trade Organization will have to evolve quickly.

The value proposition for elected government will have to return to core principles. This will not be easy.

— Promising to deliver public safety sounds nice, but in a technology-powered world going too far down that road leads to repressive central government.

— Promising to deliver liberty and freedom sounds nice, but when people begin articulating hateful speech *and get large followings of supporters*, going too far down that road leads to censorship from private corporations or governments or both.

--Promising to expand financial inclusion through alternative payment systems and cryptocurrency sounds nice and is a laudable goal, but when a financial panic or inflation hit the system, the automated execution mechanisms hardwired into these systems could easily generate chain reactions that destabilize economies.

There are no easy answers here. Some problems can only be solved by governments if the rest of us want to live in safe environments and free societies. Finding ways to mobilize technology for this purpose while safeguarding freedoms we have come to cherish will be the great challenge of this generation.

# The US-China feud is about much more than trade

US and Chinese trade negotiators will meet again in Washington on January 30 amid escalating bilateral tensions over issues far broader than traditional trade policy. The meetings will occur in a fittingly freezing city, with plunging temperatures outside accompanying the deep freeze that has gripped the bilateral relationship. US allies in Europe and Japan will quietly cheer from the sidelines as US policy makers prepare to take a tough stance.

With the ninety-day negotiating window to find a solution to the US-China trade tensions quickly running out and with expected February action by the United States regarding foreign automobile tariffs, the stakes are high. The scope of discussions is also broad. It is highly unlikely that all policy disputes between Beijing and Washington can be resolved in the January 30 meeting.

As the Atlantic Council's David Wemer noted in the *New Atlanticist* on January 27, the Chinese delegation arrives in Washington amid renewed US efforts to stem intellectual property (IP) theft and corporate espionage by Chinese companies. The shape and scope of the current drama illustrates just how far the trade policy paradigm has shifted away from traditional trade in goods.

It is helpful here to note that a classic "trade war" technically is not underway. At least, not yet. As Martin Feldstein underscored January 29 in a commentary for *Project Syndicate*, trade wars are traditionally characterized by using trade remedies to enhance target liberalizations. If the policy priority is to reduce the trade deficit in goods and the tool is tariffs, then an offer by the targeted party to adjust purchasing activity in order to address the deficit should resolve the conflict. Instead, Feldstein points out, trade policy is looking increasingly asymmetrical since Chinese offers to adjust buying behavior are not generating concessions from the United States regarding non-trade issues such as IP theft.

It is true that the Trump administration has consistently complained about the bilateral trade deficit with China regarding goods. The rhetoric has encouraged many to believe that the United States is lurching toward a "managed trade" policy rather than a free-trade policy in order to reduce the deficit. Economists fume that a focus on the bilateral trade in goods deficit itself is a misleading indicator of any aggregate bilateral trading relationship. I have argued here and here in the *New Atlanticist* that the focus on the goods sector generally is inappropriate and short-sighted since it ignores the much larger and more strategically significant services sector alongside non-tariff barriers to trade. This is accompanied by the fact that a trade deficit is not necessarily a bad thing; it reflects the combination of a strong economy and increased purchasing power as well as the principle of competitive advantage. Moreover, the US shift away from manufacturing is more than offset by the recent increase in services exports, where the innovation-rich technology economy delivers a substantial trade surplus.

Chinese policy makers have responded to US rhetoric by offering to increase purchases of US goods, including agricultural goods, at volumes sufficient to eliminate the trade in goods deficit. The offer might have been more credible had Chinese purchases been more consistent. For example, in November 2018, Chinese purchases of US soybeans plummeted to zero.

But the more important point is that US policy makers are giving every indication that concessions on the less important (but politically powerful) agriculture and goods sectors will not be sufficient to mollify negotiators who are more focused on strategically significant 21st century sectors, such as 5G networks and handheld communications devices.

The standoff illustrates well the brewing battle underway globally as trade policy makers attempt to transition the post-war trading framework to address traditionally non-trade areas. Viewed from this perspective, the IP theft drama taking center stage in the bilateral US-China trade talks may best be viewed as a new kind of trade war in which old economy tools are used to achieve concessions on new economy sectors.

## The United States is Not Acting Alone

Contrary to popular belief and official sector rhetoric, the United States is not alone in taking a tough stance against China on IP theft. In January alone, a range of key US trading partners signaled solidarity with the United States. The most notable developments include:

1. **Canada:** Law enforcement officials in Canada detained and offered to extradite a senior Huawei executive not long after the United States-Mexico-Canada Agreement (USMCA) was finalized.
2. **European Union:** The European Commission on January 9 published statistics showing that Europe—not China—is the largest export market for US soybeans. It also promised to increase European purchases of US soybeans for biofuels use. Policy makers on January 29 implemented that promise, roughly twenty-four hours before bilateral US-China trade talks were set to begin in Washington. At the beginning of the year, EU officials filed with the World Trade Organization (WTO) their plans to extend their own steel tariffs. The move brought the EU into harmony with the United States regarding imports of Chinese metals.
3. **Japan:** Leaks to the *Japan Times* indicate that policy makers in Tokyo are proceeding slowly regarding a bilateral trade deal with the United States. The shift in momentum leaves the US Trade Representative free to focus on Chinese talks.

These traditional US allies share with Washington a strategic interest in encouraging Beijing to operate within the umbrella of post-war trade structures that prioritize private sector economic activity over official sector market involvement. They are taking a range of actions that effectively increase the bargaining position of the United States with respect to the services sector and a range of non-trade policy priorities. As the Center for Strategic and International Studies recently noted, “China has altered its policy mix in ways that are inimical to market economies and the liberal international order they have built.”

The differences between Chinese policy priorities and US policy priorities indeed run deep. They go to the core of what it means to be a market economy. These differences between Beijing and its trading partners will not be resolved in one single meeting or all at once. The differences will be ironed out slowly, as policy makers in parallel rebalance expectations and priorities about the gains associated with globalization and the ongoing technological revolution. Volatility, uncertainty, and major inflection points are inevitable as policy makers globally negotiate a new institutional equilibrium with a fast-evolving China.

## What Comes Next – The Jagged Path to a New Equilibrium

# The US-China feud is about much more than trade

Negotiations among peers is never pretty and the US-China trade relationship is no exception. While the bilateral trade relationship between the United States and China is complex, it is not *binary*. There are more issues on the table than just IP theft or metals tariffs. In addition, the cross-border reaction function from policy makers outside the "room where it happens" in Washington has a material impact on how trade disputes are resolved. The reaction from Europe and Japan and Canada to today's meetings will be at least as important as the reaction among policymakers on both ends of Pennsylvania Avenue in Washington. The next inflection point will therefore be on February 7, when the EU's Trade Commissioner meets with stakeholders in the Expert Group on EU Trade Agreements. The Commission indicates today that the agenda will expressly include discussion of the transatlantic trade talks.

Economic diplomacy generates jagged progress across multiple issues and in multiple platforms, not a linear progression of wins and losses. The trade meetings this week in Washington will be no exception. The meeting's outcomes will most likely contribute insight into how the Trade in Services Agreement and WTO reform initiatives will progress even as the two parties talk their way through tariff and theft pressure points. Assigning a win/loss rate on individual issues is at least as misleading an indicator of policy trajectories as a singular focus on the goods deficit.

The good news is that the global trading system has been here before. When policy makers met at Bretton Woods in 1944 to craft the current international and multilateral system, the parties at the table included China and Stalin's Soviet Union, both which rejected free market principles. If wartime leaders could manage to craft the current architecture that has delivered significant growth globally for decades, it is reasonable to believe that today's leaders can manage at least to avoid classic, debilitating trade wars.

Facts provide the foundation for solid analysis and strategic decision-making. But for professional investment analysts, corporate strategists, and journalists, finding facts increasingly feels like a high tech, high stakes scavenger hunt.

The Distributed Age makes it easier and faster to find information. It increases exponentially the amount of information available publicly from policymakers. Ironically, however, it also decreases the proportion of fact-checked, objective information compared with opinion, inaccurate information, and malicious, deliberately false information. Search engine optimization and search algorithms reward one-side, biased, scantily researched content as well as false content. This in turn accelerates the proliferation of rumors and misleading information. It is a vicious cycle.

# Finding Facts -- A Distributed Age Scavenger Hunt

This post explains why finding facts is becoming increasingly difficult. It closes with insight into how companies are deploying technology to help analysts and strategists combat information overload and misdirection. At the end, we share an infographic designed to help readers distinguish between different kinds of content they may encounter in their scavenger hunt for facts in the news stream.

## The Information Equivalent of Gresham's Law

Gresham's Law posits that "bad money drives out good money." Specifically, people hoard "good money" with real value. In the 1500s when the behavior was first observed, people would hoard coins containing real metal (e.g., gold, silver) while spending in circulation coins that had been "de-based." For more on Gresham and his "law," see this new biography which was reviewed recently by the Financial Times HERE.

In the Distributed Age, the sheer volume of information combines with incorrect, incomplete, and advocacy-based information to decrease the visibility of objective facts. Bad information drives out access to solid information. And as we will see at the bottom of this post, professionals increasingly use technology to hoard access to reliable information in order to construct a better foundation for informed decision-making. Sadly, average retail consumers of the news cycle (i.e., voters) have limited if any access to these resources.

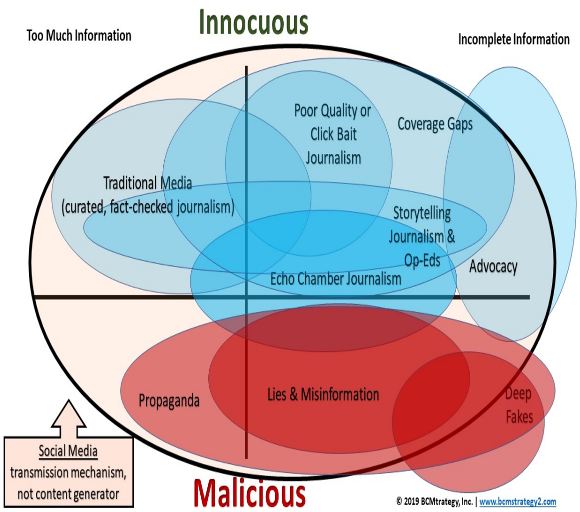
The ***more*** sheer volume of 24/7 information flows turbo-charged by social media information sharing combines with shortened attention spans and time constraints, it creates real information gaps. Amid the noise of the news cycle, even mistaken information with zero malicious intent can interfere with the ability of an electorate or an investment analyst to make an informed decision.

The resulting noise and confusion increases vulnerability to malicious information flows. State-sponsored and non-governmental actors armed with advanced technology enter the fray with increasingly sophisticated content from deep fakes and memes to deliberately false and misleading content. Not all this information is shared through social media. But when it is shared in social media, it amplifies the Gresham's Law effect in the information ecosystem.

**Information Overload -- Innocuous and Malicious Content**

As the diagram below illustrates, information overload is not merely a problem generated by access to too much information. Incomplete information (delivered for innocuous as well as malicious purposes) competes with and crowds out fact-based reporting in the battle for attention. Note that most of these categories of information flows pre-date the advent of digital media.

# Finding Facts -- A Distributed Age Scavenger Hunt




No wonder people have a hard time understanding what is -- and is not -- real.

Note that not all information is shared on social media, which implies that even draconian restrictions on free speech on social media platforms will not address the core problem although it may slow the velocity and scale with which problematic information is disseminated.

> The harsh truth is that not everyone actually wants to build or to see a truly 360 degree view of the facts. Especially at the retail level, many people simply seek validation of their world view.

Consider the recent Nobel Prize award for Richard Thaler's behavioral economics research that fueled "nudge economics" and modern social media marketing. From the childhood game of telephone (in which messages become garbled and distorted each time they are repeated) to middle school social dynamics to political "whisper campaigns" and the persistent popularity of tabloids, people are famously susceptible to manipulation and inclined to believe rumors without checking the facts.

Advocates (e.g., lobbyists, non-governmental organizations, non-profits with a public purpose, journalists writing opinion pieces, investigative journalists) understand this and highlight selected certain facts in order to convince non-experts to agree with their point of view. The use of selective facts for advocacy purposes is as old as human susceptibility to peer pressure, rumor and innuendo. It is not always malicious.

This complicates considerably the job of knowledge professionals and analysts seeking facts for an informed decision-making process. Much public discourse involves advocates and officials dueling with facts and figures all of which are accurate and factual, but not all of which may be relevant or meaningful. It has never been more important -- nor more difficult -- for professional analysts to remain objective. The importance of objectivity for investment analysts in particular is discussed in THIS POST for Interactive Brokers earlier this year.

# Finding Facts -- A Distributed Age Scavenger Hunt

> The fine, fuzzy line between highlighting favored facts and deliberately hiding problematic facts or misrepresenting facts was not invented by Twitter and Facebook. Social media platforms merely amplify and accelerate the ability of the loudest voices or deepest checkbooks to gain traction with problematic facts and falsehoods.

Traditional media is having a hard time adjusting. Journalists and editors are also subject to the same barrage of information as regular people. Their role in society is to determine which facts to share with readers. But the curation function journalists provide has not always – or even predominantly – been free of bias.

In many countries, it is the norm for newspapers to provide an ideologically driven view of the facts. For example, in France, leading media outlets are affiliated with specific political perspectives on the left (Liberation, Le Nouvel Observateur, L'Humanite), the right (Le Figaro, L'Express). The U.S. fixation with objective news is a direct outgrowth of the nation's experience with "yellow journalism" in the late 19th century and early 20th century which sought to increase newspaper circulation through sensationalist reporting which often had only a cursory connection to concrete fact.

The modern analogs for yellow journalism, of course, would be (i) "click bait" journalism designed predominantly for search engine optimization and (ii) the continued existence of tabloids which print often comically absurd stories that somehow people still believe. As JSTOR lamented three years ago,

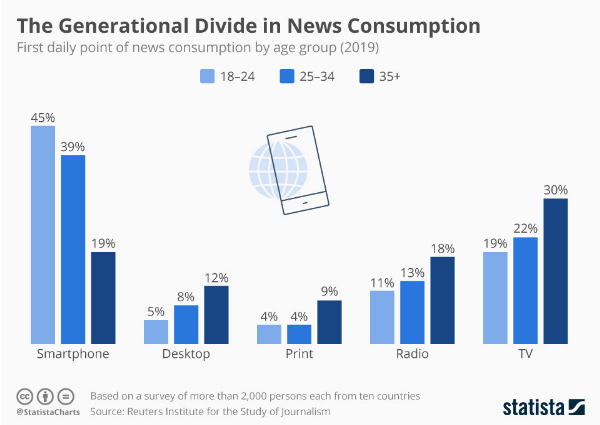
*"Established media outlets and social networks are not just supported by the dollars-for-clicks they earn by displaying fake news headlines; they are increasingly built upon a common culture of clickbait-y headlines, partisan hyperbole, and a prioritization of human interest stories over hard news."*

Now consider the revered New York Times commitment to share with readers "all the news that's fit to print."

The value proposition is about curation and insight, not necessarily a fully objective 360-degree view of a situation.

News outlets that provide purely objective reporting and minimally curate information as it emerges (news "wires" like the Associated Press, Agence France Presse, Reuters, Bloomberg, C-SPAN, etc.) rarely find readers in the retail space.

And as the data below indicates, information acquisition patterns (i.e., media consumption) are shifting dramatically. The move to mobile makes information acquisition via social media so much easier. Even when traditional print and broadcast media adjust by distributing content via email, apps, and social media, the reality is that these traditional sources of information are increasingly losing the battle for eyeballs and credibility. The trend will accelerate as the generational shift replaces traditional media consumers with Distributed Age media consumers.




The outcome at the retail level is increased susceptibility to government-sponsored propaganda (which can mobilize concrete, real facts presented in a misleading manner) and malicious content designed to mislead, confuse, and generate fear. The outcome at the knowledge management/professional analyst level is that subpar, misleading and false information increasingly crowds out access to strategically significant details.

## The Dark Side -Propaganda, Deep Fakes, and Disinformation

On the far end of the spectrum lies state-sponsored or official sector disinformation and propaganda activities perfected by the communist Soviet Union during the Cold War and still used today by totalitarian and authoritarian regimes around the world. Merriam-Webster indicates that the term “disinformation” itself has an ignominious history originating in Nazi Germany and the Soviet Union’s department for disseminating propaganda.

Governments no longer hold a monopoly on the ability to disseminate false information with the deliberate intention to deceive.

> Mobile devices and increased accessibility to both information and image editing software means private individuals and non-governmental organizations can be just as effective as governments in generating misleading or incomplete information masquerading as facts.

Simultaneously, traditional media is evolving in a way that makes it far less effective in delivering an antidote. As the Atlantic Council recently noted:

# Finding Facts -- A Distributed Age Scavenger Hunt

*As the key generators of both the message and as the primary messengers, media organizations are still central actors in the response to disinformation. In this sense we must distinguish between the dwindling number of professional media actors (e.g., journalists and editors) and the informal and unaccountable "content generators" who are often conflated with them. While they are facing a deeply disrupted, fractured, and challenging industry, media professionals arguably play a more important role than they ever have before. As the number of professional "gate-keepers" has been eroded, those who remain are more vital than ever. This is not to suggest that all journalists, editors, or media executives are innocent in the dissemination of disinformation or the murkiness or the current information environment. Rather, the industry needs continued reform and improvement. Greater guidelines and best practice are needed to increase transparency about bias. Distinguishing between objective reporting, opinion, and paid-for content would go a long way toward restoring trust in the media as an institution.*

Effective disclosure would have to occur at the beginning in order to have any hope of serving as an effective transparency mechanism for readers.

While we wait for the industry to evolve, readers may find it helpful to keep on hand this infographic. It is designed to level the playing field between unscrupulous content generators and readers.

For those seeking high-tech solutions, the last section below is for you!

## Technology to the Rescue

Deploying armies of human and artificial intelligence algorithms to conduct endless rounds of fact-checking seems to be the preferred priority at present. However, this solution does little to address the embedded bias of the fact-checkers. It also only adds noise and makes the fact-finding process more convoluted. As any litigator will tell you, often the most contentious parts of a lawsuit revolve around two parties disagreeing about facts, long before they start arguing about the law.

Companies are finding alternative, better ways to conduct knowledge management by curating information inflows for their professionals.

> Increasingly, knowledge management and news intake is an Internet of Things (IoT) process in which data and information flow directly between trusted sources. APIs and widgets built on the data delivered by the APIs increasingly deliver a curated flow of trusted content to strategists, investors and advocates.

# Finding Facts -- A Distributed Age Scavenger Hunt

By designating in advance which information flows are trustworthy, vulnerability to inaccurate or incomplete information diminishes for knowledge management professionals. Automated delivery ensures that solid information is easy to acquire without having to wade through the noise of the news cycle.

Curated information feeds are thus the frontier of knowledge management for analytics professionals. APIs and the widgets built on top of them effectively become the Distributed Age version of Gresham Law currency hoarders. They aggregate and analyze automatically information inflows, collecting for themselves the best data feeds. Drawing from sources beyond Bloomberg and ThomsonReuters, and deploying advanced Natural Language Processing technology, reading is increasingly an IoT activity at the machine level first for large companies.

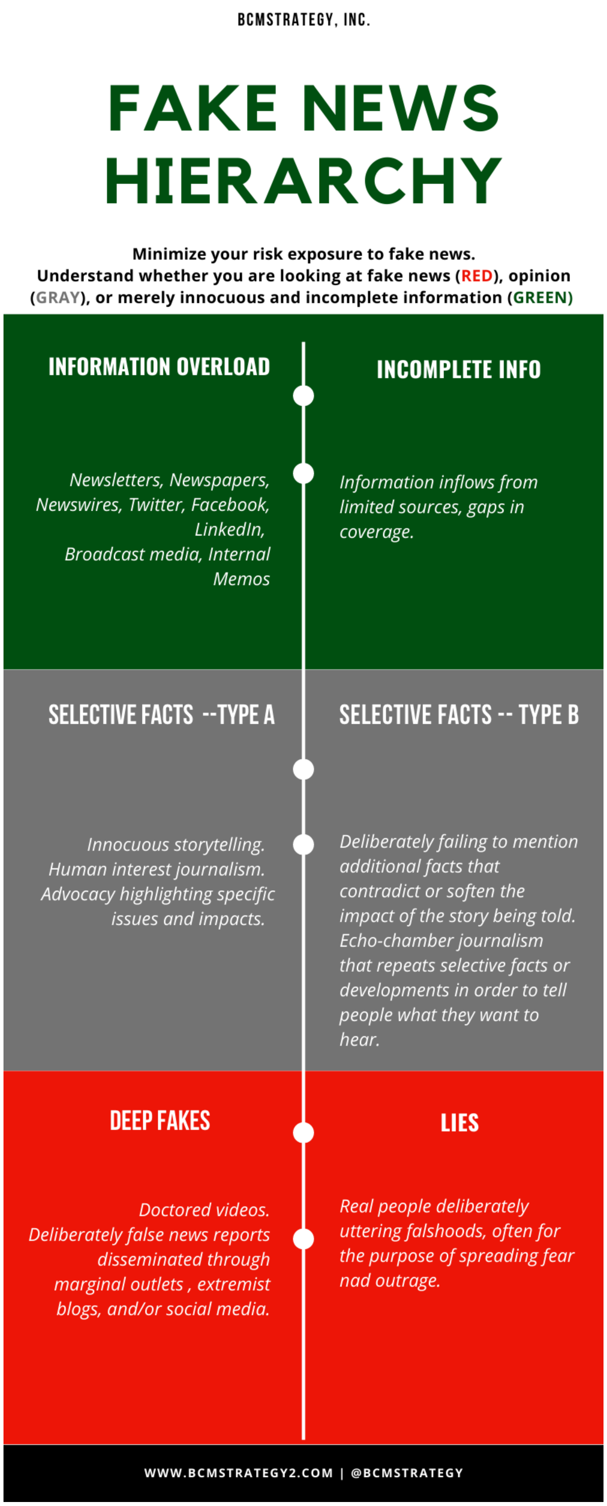
Technology may enhance the process by which information is acquired and analyzed, but in order for it to automate the insight process it needs to be pointed in the right direction. Feed automated systems problematic or incorrect data and their automated output quite frankly is junk.

The consequences for the policy process and democracy begin to look dreadful if, for example, insight platforms are trained on a news cycle that includes click bait, propaganda, sponsored content, and opinion pieces that rely on partial data. Key questions include:

1. If people have a hard time trusting traditional media today, how will trust mechanisms function over the next decade when more of the information process has been automated? How can citizens vote responsibly when they have limited time (and often limited interest) in conducting detailed research before an election?
2. How can an electorate insulate itself from malicious manipulation when the concrete facts begin to resemble needles in a haystack of a noisy news cycle? At what point does a flood of information or incomplete information turn into a malicious attempt to sway public opinion and subvert democratic processes?

These are still early days in the data revolution. But if the sophistication of malicious actors continues to increase at its current pace, it will become imperative quickly to find ways to deploy transparent, objective fact-finding technology to journalists and individuals as well as investment analysts and advocates.

# Conclusion

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