



# ECONOMY AND CONVICTIONS

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## FRANCE AT A CROSSROADS

We had almost forgotten about the presidential elections! These are chaotic times. The pandemic has raised heated debates. International issues, especially Afghanistan, remind us how we have been relatively spared by certain other things. In this situation, French politics has seemed suspended for more than a year now, struggling between Covid restrictions and attempts to leave this health crisis finally behind.

Indeed, the picture looks grim. However, despite the Covid variants that are outwitting – to some extent – vaccines and the terrible news from certain parts of the world (hurricanes, Taliban, floods, and hospitalisations), there's still reason to feel reassured. The situation in this part of the world is improving, and France seems almost an island of stability in a somewhat dazed Europe seeking its place in this changing world. Meanwhile, Germany is preparing an unpredictable transition to the post-Merkel era; Italy is still at the mercy of a fragile compromise that has led to the formation of an unprecedented technocratic government, and the United Kingdom is still struggling to adjust to the post-Brexit era.

But, despite a few clouds, the economic outlook is encouraging. The 6% growth forecast for the Eurozone announced by the Government after the rebound in the second quarter will only partially make up for the equally record-breaking plunge in 2020.

The “whatever it takes” strategy has yielded some results. However, inflation is making a comeback: nearly 2% over one year driven by poor harvests and a shortage of electronic components that is causing supply chain hiccups in many sectors. In addition, many workers who were made redundant during the repeated lockdowns ended up leaving their jobs, making it difficult to restart the supply chain at full capacity. This dependency on external suppliers should make us do something to stop this worrying deindustrialisation, which is affecting France more than its neighbours.

The way out of this persistent atmosphere of distrust – the anti-vaccine passport protests are an example – will be impossible to find on an individual level or even by the highest ranks of the state. Instead, the way out will be found among the intermediary bodies, which have been neglected far too long in a country where a visceral attachment to the state coexists with unbridled individualism (and the distrust towards the collective vaccination effort is a clear indicator). But the health crisis has also given rise to new, promising forms of solidarity among associations, families and businesses. In fact, businesses have served as a safety net for many French citizens during this difficult time, allowing them to maintain social relations during the lockdown. They need to be supported, now more than ever, to take on future challenges.

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## OUTLINING A FRANCO-ITALIAN AXIS: TOWARDS A EUROPEAN RISORGIMENTO

Italy has gone through one of its darkest periods during the worst pandemic in the 21st century, as the shocking images from Brescia in March 2020 have shown. Nevertheless, the country of Garibaldi has managed to rise from its ashes and resume its leading role in the international scene.

In fact, one could say that, after the formation of the Draghi Government and a season of big wins, including the Eurovision Song Contest in May and Euro 2020 in July 2021, Italy may have regained some internal stability. The cogs of Europe's most ambitious recovery plan (€ 310 billion) have started to turn, and Mario Draghi has managed to distinguish himself from his predecessors. Mr Draghi has succeeded in the difficult task of achieving political consensus, thanks to his communication style, his clear and ambitious vision of the European project, and lucidity in dealing with the economic and financial divisions that have been tearing the country apart for years.

Meanwhile, on the other side of the Alps, a politically intense period is underway in France. In June, the regional elections resulted in the consolidation of traditional parties and the defeat of Rassemblement National (RN) and La République en Marche (LREM). Later on, from 1 January 2022, France will hold the rotating Presidency of the Council of the European Union.

The President, Emmanuel Macron, has launched a vigorous communication campaign to ensure a leading role for France in Europe, guided by the idea of a people's Europe, with more democracy, less financial rigour, and faithful to the ambitions of the ecological and digital transition. In addition to consolidating the country's image among its partners, this strategy aims at earning media coverage in view of the presidential elections in April 2022. With this in mind, Mr Macron has decided to leverage his pro-Europe and reform-oriented stance to face the social tensions that have accompanied his presidency since the early Yellow Vests protests.

It's still too early to say whether this is a good decision to counteract Marine Le Pen's Rassemblement National and the resurgence of France's traditional right, which Valérie Pécresse ou Xavier Bertrand could embody. Nevertheless, the convergence of political and institutional events in 2021-2022 may prove Mr Macron right.

This observation is linked to another political event that will mark the end of an era: the election of Germany's new Chancellor after Angela Merkel. In fact, after 16 long years, Germany is at a crossroads that will impact the power dynamics in Europe.

Mario Draghi's efforts have allowed Italy to regain its internal stability and consolidate its position within the European Union. And consolidating relations with France seems to be a priority, now that the tensions that emerged during the "Yellow-Green" Government have subsided.

Indeed, Mr Draghi has supported Mr Macron on a number of matters related to strategic investments and the fight against Covid. Meanwhile, the Italian minister of economic development, Giancarlo Giorgetti, has been building ties with his French counterpart, Bruno Le Maire, and the European Commissioner Thierry Breton to consolidate the European industrial policy. Finally, during his state visit to Paris in early July, the Italian President, Sergio Mattarella, confirmed Italy's will to sign an Italo-French version of the Aachen Treaty signed by France and Germany in 1919.

In an effort to combine competition and cooperation, the ambitions of both stakeholders may soon be realized thanks to the Quirinal Treaty. The goal of this treaty will be to promote dialogue between the two countries on sensitive matters, such as the sphere of influence in Libya, the creation of a common defence policy, and the emergence of industrial champions in the energy, transport, aerospace, microelectronics, and digital sectors.

In conclusion, it will be a unique opportunity for the future of Italy, France, and the European Union. After years of misunderstandings and distances, an Italo-French alliance may be the answer to an unprecedented crisis and the missing piece of the puzzle needed to ensure the long-awaited European Risorgimento.



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## CENTRAL AND EASTERN EUROPE: A DRIVING FORCE FOR GROWTH

Central and Eastern European countries have been enjoying higher economic growth rates than Western European ones for several years now. Thirty years after the 1989 events that led to the end of communism, their economic performance remains solid, although not without grey areas. But communism didn't leave just a dark and devastating legacy. It also provided these countries with a highly trained, educated, and skilled workforce with excellent scientific and humanistic knowledge. And even today, there is less inequality than in Western Europe, except for most countries of the former Soviet Union, where the opportunist oligarchy was the main beneficiary of privatisation. Central and Eastern Europe is a complex region full of painful memories and enduring rivalries. However, it is also a land where innovation and traditions, modernity and conservatism intertwine, promoting creativity and opportunities.

Just before the outbreak of the pandemic, this region was still enjoying

significant growth rates (around 2 to 3% in the past few years), strong domestic demand, lower debt (except for Hungary), an attractive and relatively simple tax system (thanks to the flat tax introduced in several countries), and a growing middle class, allowing many French companies to find new B2C outlets. Moreover, the low labour costs and

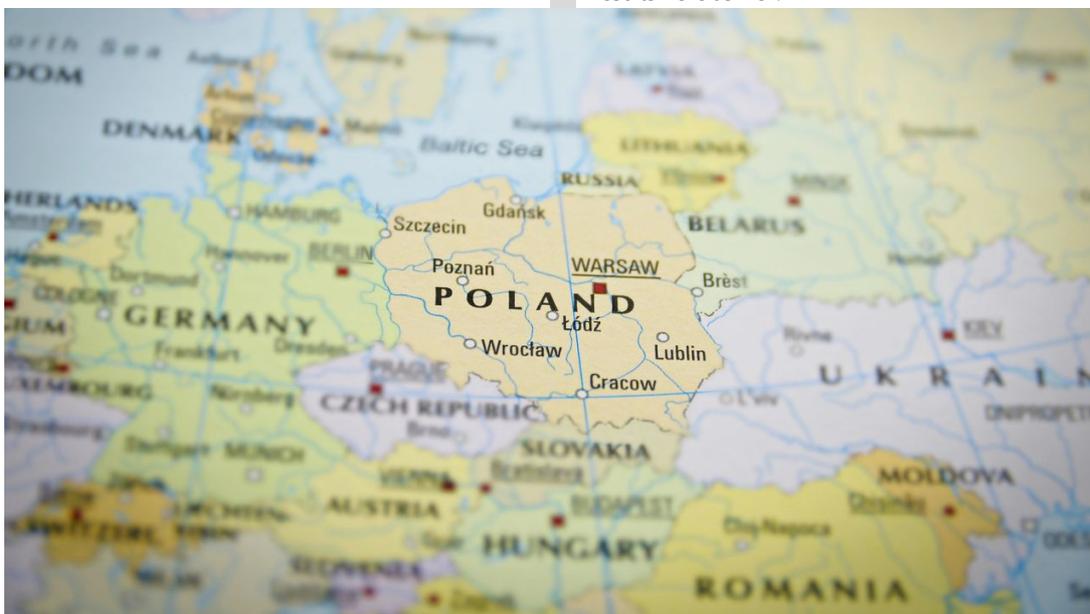
workers' exceptional qualifications help optimise the value chain in the automotive, chemical, IT, and electronic industries and make the most of its position between the West and Asia, thanks to the Silk Roads.

And now, Central and Eastern Europe are also becoming a tech powerhouse. At a time when digital technology is an essential tool for sovereignty and a major driving force for growth, this region is set to play a critical role against the GAFAM (Google, Amazon, Facebook, Apple, Microsoft) and BATX (Baidu, Alibaba, Tencent, Xiaomi) giants.

Russia, for example, has developed a powerful digital ecosystem around Yandex (Russia's version of Google), which is now moving into Western Europe with its search engine and shopping delivery and taxi services. Moscow is undoubtedly trying to show a more attractive face and is relying on a new digital soft power to improve Russia's image in Europe.

Meanwhile, Estonia, the tiny Baltic republic with a population of just over a million, is a leader in digital public services, whose effectiveness and simplicity have become a world benchmark.

And Poland has been allocating most of the foreign investments in biotechnology, the Internet of Things, and artificial intelligence, becoming, according to Morgan Philipps, Europe's Silicon Valley. The scientific and engineering knowledge inherited from the communist years keeps yielding results here as well.



One of Europe's most developed tech hubs, Poland is a country of paradoxes. Anchored in the single market and driven by its innovative sectors (healthcare, ICT, and finance), Poland is pro-European, as demonstrated by the opinion polls on EU membership. On the other hand, it's also a profoundly Atlanticist and nationalist country, haunted by decades of Soviet occupation and suspicious of supranational

organisations. Its tug of war with Brussels may prove problematic in the long run if Poland were to follow the UK (with whom they share many geopolitical concerns) out of the EU.

Well aware of this region's enormous potential, the consultancy firm FairValue Corporate & Public Affairs has understood the need to support companies in these promising yet little-known markets, which often have different cultural and political standards. Their new office in Warsaw, which is set to open in October, is a step towards this new horizon.



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Fueled by dreams of grandeur and imperial nostalgia, Brexit is naturally perceived by many as an inward-looking withdrawal, and a particularly damaging one on an economic, diplomatic and cultural front, that has ultimately left the UK isolated and dwarfed by the might of the Chinese and American superpowers, and most importantly, by the bloc that it has chosen to turn its back on. In reality, the UK's departure from the European Union represents the deepest realignment, albeit forced, of UK foreign and commercial interests since the 60s and the final days of the Empire, this time away from Europe and towards the rest of the world. The dawn of a new "Global Britain".

This new mantra of the UK Government (lest we forget was voted in during the General Election of December 2019 purely on the basis to deliver Brexit after years of political infighting) represents the new grand strategy of the UK as it defines its future outside the EU and a new role within the international order. Heavily influenced by a certain Winston Churchill and his 'Three Majestic Circles' foreign policy – a strategy consisting of three concentric circles of Europe, the United States, and the Commonwealth, with Britain being the crucial link between them- "Global Britain" is the embodiment of the UK exceptionalism and of the conviction that it can trace its own path by capitalizing on its historic relations with the US and the Commonwealth.

Using its new-found sovereignty, the UK is embarking on an unprecedented economic diplomacy world tour to conclude free trade agreements around the globe. So far, the UK Government has secured new trade deals with Australia and Japan, has negotiated rollover deals with 66 countries from when it was an EU member, and is preparing talks with Canada, Mexico, India and many more. Furthermore, it has applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), an 11-country trading bloc which includes Japan, Singapore, Vietnam amongst others, with the aim to be fully integrated by 2022. Indeed, a "strategic pivot to Asia" has been frequently mentioned by Prime Minister Boris Johnson as a crucial part of the UK's post-Brexit trade policy, with these markets exhibiting far greater levels of growth potential than what is perceived as being a rather more stagnant European market.

Within the UK itself, Rishi Sunak, the Chancellor of the Exchequer, has announced plans to create a dozen free ports and low-tax zones that would "showcase the future economy" and "unlock billions in investment", boosting trade and jobs. Located around the UK, including in some of the country's poorest regions, the boost to trade and jobs is part of the "levelling-up" agenda to reduce regional inequalities.

Nonetheless, Global Britain is not without its challenges. Its greatest opposition lies perhaps in the form of the thousands of businesses that rely on trade to the EU single market, with SMEs particularly penalized by their inability to adapt their supply chains and redirect their exports to far-flung markets. The priority of these British business is therefore not to supply the demand of the Asian market, but to find solutions to the current issues affecting UK-EU trade. In this sense, Global Britain seems to ignore, perhaps hubristically, the economic interdependence that has been forged between the UK and the EU over the centuries. In the words of French President Emmanuel Macron during a bilateral summit that took place at Sandhurst in January 2018: "there are 2 things that we cannot change, our history and our geography".

On top of this, the UK has found that concluding trade deals with China and the US is not as simple as it appears. In regards to China, human rights abuses, fears of espionage and the erosion of democracy in Hong Kong have all contributed to sour considerably relations between the two countries since the Brexit vote. As for the US, the election of President Biden, replacing the pro-Brexit Donald Trump, has been an undoubted setback for Brexiters with ambitions for a reinforced Transatlantic economic partnership.

Overall, the success of "Global Britain" will depend on several factors, including its approach towards either regulatory harmonization or competitive deregulation vis-à-vis the EU, its capacity to build multilateral alliances, as well as its ability to address regional divides within the UK itself. This process will however take time and ultimately the UK's relationship with the EU will overshadow new post-Brexit partnerships at least for the next few years. Can the British public and businesses afford to wait? Politics certainly won't.

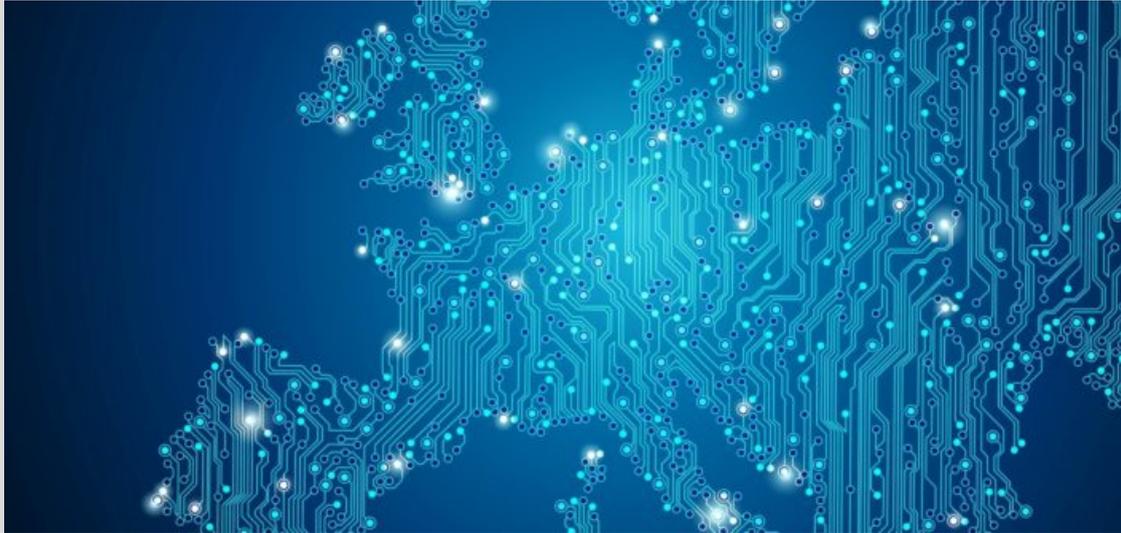


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# TOWARDS EUROPE'S DIGITAL AUTONOMY AND SOVEREIGNTY: CHALLENGES AND OPPORTUNITIES



The European Commission President, Ursula von der Leyen, has warned about how Europe is lagging behind China and the United States when it comes to digital technologies, especially artificial intelligence and big data. Europe's telecom and digital companies struggle to achieve enough critical mass to compete with GAFAM (Google, Amazon, Facebook, Apple, and Microsoft) and BATX (Baidu, Alibaba, Tencent and Xiaomi), thereby increasing our dependence on this new geopolitical duopoly.

It will be difficult for Europe to create true champions in the digital industry. The ordoliberal logic enshrined in the treaties, the fragmented telecom market, and consumers' massive use of the services provided by the GAFAM (which has even increased during the pandemic) certainly won't help.

Despite all this, the European Union hasn't gone beyond a defensive strategy: content regulation, fight against the digital giants' abuse of dominance, and the famous GDPR. A revealing example of this digital protectionism is the Commission's Digital Markets Act (DMA). This act will require players with more than 45 million European users to disclose their algorithms and comply with a set of rules concerning personal data (although nothing can be taken for granted, as the stakes in terms of intellectual property protection are so high). But, on the whole, it's the same logic applied up to now: regulating other countries' platforms instead of consolidating and improving ours.

Meanwhile, the single market is not exactly living up to its name. In fact, it's still fragmented. Little or nothing has been done to harmonise our regulatory framework to make it more incentivising. There's still a lack of common systems in terms of digitisation of administrative processes. And telecom networks are still split across 27 countries, despite the prominent role that innovative companies with enough critical mass can play. Orange, Vodafone, Deutsche Telekom, and others can hold their own against certain GAFAM companies by their very nature and because they pose conditions for accessing their networks.

Audiovisual products, retail finance, legal services, or even direct sales of physical goods continue to be regulated mainly at a national level. On the other hand, the absence of a capital markets union prevents the emergence of private equity funds that would allow for significant investments in European unicorns. In addition, these unicorns are often prisoners of timid financing practices, which leave them at the mercy of the tech giants.

Now, the Commission's plans to prevent these giants from investing in European companies without restraints are a step in the right direction. However, rather than just focusing systematically on defensive strategies (although necessary), it would be more urgent to create a positive framework to promote growth and innovation. After all, attack is the best form of defence.



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