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The Debt Question
China's Tech Path
The Digital Euro

Elphinstone Research Group

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Contents

Britain

- 4 **Is UK Government Debt Sustainable?**
- 5 **NHS Inefficiency at the Heart of the UK's Productivity Crisis**

Europe

- 7 **Is Germany on the rise or is Germany on the fall?**
- 8 **The Digital Euro: Reinventing Money or Risking It?**

Middle East & Africa

- 10 **U.A.E & South Korea to sign a \$65 billion Defence and Investment Cooperation Contract**
- 12 **The Global Market Response to the Middle East Escalation**

Asia

- 14 **China's 15th Five-Year Plan: The Path Towards Technological Self-Reliance**
- 16 **Re-Wiring Globalisation: Inside the EU-India "Mother of All Deals"**

Technology

- 18 **The Unholy Matrimony Between Trade and State**

Britain

Is UK Government Debt Sustainable?

Assessing the Sustainability of UK Public Finances

by Freya Ferguson

UK government debt has risen significantly over the past decade, surpassing 100% of GDP – a level not seen since the aftermath of World War II. This rise has become a central economic concern, particularly following the COVID-19 pandemic, energy price shocks, and a sharp increase in interest rates. While high debt levels often attract alarming headlines, the more pressing question is whether the UK can manage this debt sustainably in the long term. Debt is not inherently dangerous, but problems arise when borrowing costs outpace economic growth. This article examines the current state of UK public finances, the role of interest rates, and assesses whether Britain's debt position is a manageable burden or a growing fiscal risk.

The UK public sector's net debt surged sharply during the pandemic. This was due to the government introducing furlough schemes, business support measures, and increased healthcare spending. More recently, energy subsidies and weaker economic growth have kept borrowing elevated. The government, through HM Treasury, finances deficits by issuing government bonds, known as gilts. These are bought by investors like pension funds, banks, and overseas institutions. The cost of issuing this debt is heavily influenced by interest rates set by the Bank of England. After inflation surged in 2021, the Bank raised rates significantly to stabilise prices. This led to an increase in gilt yields, raising the government's borrowing costs. Debt interest payments have since become one of the largest areas of public expenditure. While markets continue to view UK gilts as relatively safe assets, the shift from ultra-low interest rates to higher borrowing costs has significantly changed the fiscal landscape. The sustainability debate now centres not only on how much the government owes but also on how affordable that debt has become.

Debt sustainability is best understood through the relationship between interest rates and economic growth, often referred to as the “ r versus g ” dynamic. This dynamic involves the interest rate the government pays on its debt (r) and the growth rate of the economy (g). If economic growth exceeds the interest rate ($g > r$), the debt-to-GDP ratio can stabilise or even fall naturally over time. Conversely, if interest rates exceed growth ($r > g$), the debt burden becomes progressively heavier. During the 2010s, low interest rates made high debt levels affordable. However, today, UK growth remains low while borrowing costs have risen, creating a more fragile balance. Despite these challenges, there are strong arguments that UK debt is still sustainable. Firstly, the UK borrows in its own currency, reducing the risk of a sovereign debt crisis caused by exchange rate instability. Secondly, the average maturity of UK gilts is long, meaning refinancing pressures are spread over time rather than concentrated in the short term. Thirdly, demand for government bonds remains solid, particularly from domestic pension funds, supporting market confidence.

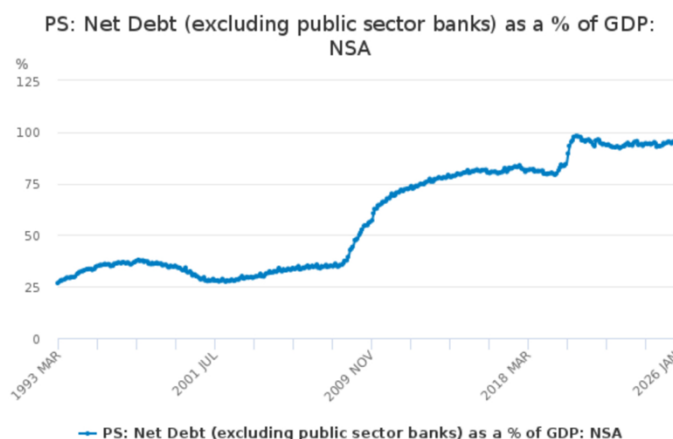
However, longer-term structural challenges raise concerns. UK productivity growth has been weak since the 2008 financial crisis, limiting economic expansion. An ageing population is likely to increase spending on pensions and healthcare, further straining public finances. At the same time, the tax burden is already historically high, reducing the government's flexibility to generate additional revenue without economic side effects.

Ultimately, sustainability depends less on the current stock of debt and more on future growth prospects. If productivity improves and GDP expands steadily, the debt ratio can stabilise. However, without stronger growth, rising interest costs could gradually crowd out other areas of

public spending, limiting fiscal flexibility and economic resilience.

The UK government’s debt is high by historical standards, but it’s not currently at crisis levels. This is because financial markets continue to lend to the government at manageable rates, and institutional credibility remains strong. However, sustainability is conditional rather than guaranteed. The key determinant will be whether economic growth can keep up with borrowing costs. If productivity improves and the economy expands, the debt burden can stabilise over time. Conversely, if growth remains weak, rising interest payments may increasingly constrain public finances. In this

sense, the UK’s debt is manageable, but only with stronger long-term economic performance.



Source: Office for National Statistics 2026

NHS Inefficiency at the Heart of the UK’s Productivity Crisis

Why Reforming Healthcare Is Central to Reviving Economic Growth

by Holly Bathgate

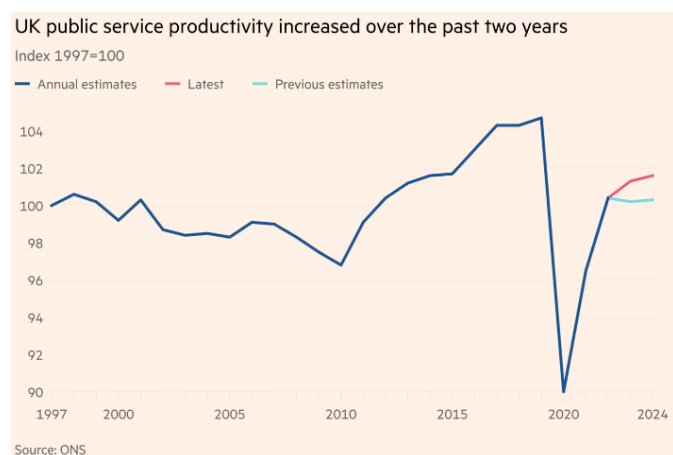
The UK Government has recently launched a new wave of expert-led reviews to identify and address inefficiency and wasteful duplication across public sector services. Despite increased spending, performance has been poor, and productivity growth from local government to central departments has lagged behind private sector norms. This has caused heightened scrutiny over how effectively taxpayer money is being used.

Within this broader debate, the NHS has emerged as the central focus point. With public satisfaction at historic lows and waiting times still politically charged, concerns about NHS productivity now extend beyond healthcare policy into wider fiscal and economic discussions. Independent analysis indicates that weak public sector productivity is costing the UK tens of billions each year. The key question is whether NHS inefficiency reflects deeper systematic issues, or whether it is the principal driver of the UK’s productivity challenge.

Public service productivity captures the relationship between outputs (such as treatments delivered or cases processed) and inputs (funding, staff and infrastructure). High productivity is desirable because it means we can provide higher quality services with the same, or fewer, resources. Since the pandemic, output recovery has failed to keep pace with rising expenditure across much of the public sector, as shown in a 2025 productivity report from the Institute for Fiscal Studies (IFS). Similarly, the Institute for Government Performance Tracker 2025 found that although activity has risen, performance, including health, is generally worse than before 2020, reflecting rising demand and falling productivity.

The NHS illustrates these pressures clearly. The King’s Fund reported that in 2024, only 21% of people were satisfied with the services provided by the NHS (the lowest percentage recorded by the British Attitudes Survey), with wait times being a key concern. At the same time, English reviews of hospital efficiency are

mixed because of recent improved measures, although broader NHS productivity remains below pre-pandemic levels – this suggests improvements in one area aren’t being replicated in system-wide performance.



EY, a major global professional service provider, suggest their estimates show that slow growth in public sector productivity costs the UK £80 billion annually and, without intervention, could reach £170 billion by 2030.

The NHS faces a complex combination of rising demand, workforce shortages and structural fragmentation. An increase in appointments and procedures has not necessarily produced shorter wait times or better outcomes, which emphasises the system’s inefficiency.

Proposals for NHS England introduced a more intense debate concerning bureaucracy, with concerns that administrative duplication is diverting resources away from frontline care. However, structural reorganisation alone is not likely to resolve the deeper operational issues of the system. Outdated digital infrastructure is also a persistent issue. Investigations into government systems highlight how legacy IT used in public services, including healthcare, may be limiting productivity gains worth around £45 billion. Within the NHS, disconnected data systems will enhance a number of operational inefficiencies like slowing patient services, delaying discharge processes, and hindering service coordination.

NHS inefficiency does not exist alone. Hospital backlogs and delayed discharges can be affected by social care capacity constraints, financial pressures on local authorities and

broader performance issues across the public sector.

The IFS and Institute for Government both highlight that rising demand, stemming from ageing populations and more complex post-pandemic requirements, has coincided with weakened productivity. If health and social care do not consider a coordinated reform solution, NHS-specific interventions risk being diluted or reversed by other related systematic pressures.

At the macro level, EY modelling indicates that persistent underperformance in public services reduces overall economic output. NHS waiting times also influence labour market participation, with delayed treatment preventing individuals from returning to work, indirectly constraining business activity and slowing economic recovery.

Solutions for NHS reform are driven by modernisation. Integrating automation and AI, alongside investment in modern digital infrastructure, will accelerate service access and streamline information processing while avoiding escalating maintenance costs associated with ageing structures. Technology companies specialising in health data and automation stand to gain from this, as well as community care providers who will benefit from policies aimed to shift treatment away from hospitals, expanding outside support.

However, in the short term, structural reorganisation could cause disruption that will intensify existing pressures. Administrative consolidation may reduce overheads eventually, but the transition period introduces periodic uncertainty and additional costs.

For regional economies, including areas like Aberdeen, NHS performance has wider implications for workforce health, labour market participation, and investor confidence. Prolonged inefficiency may result in higher public borrowing or increased taxation to sustain spending, crowding out other investment priorities and dampening local economic resilience.

The NHS sits at the centre of the UK’s public sector productivity debate, with record-low satisfaction rates, long wait times and general systematic inefficiency. Ongoing reform

proposals have fuelled scrutiny over how effectively resources are translated into care. Yet NHS inefficiency both reflects and reinforces broader structural weaknesses across the public sector. Without modernised investment and coordinated reform, organisational change alone is unlikely to deliver lasting effects. The saving grace could be the implementation of AI,

but the conflict and negative press around reducing the budget for frontline healthcare proves a contentious point. The key test will be whether government reviews lead to measurable productivity improvements, or whether underperformance continues to weigh on economic growth.

Europe

Is Germany on the rise or is Germany on the fall? Germany is facing setbacks in its economic growth

by **Anna Malysheva**

There are various factors that affect how “well” a country's economy is doing. In more economic terms, there are several factors that affect long-term economic growth. It is important to note that short-term growth is cyclical and is affected by economic fluctuations, such as short-term rises and falls in real GDP. Long-term growth, on the other hand, can be described as a sustained increase in potential GDP. Some of those long-term factors include: technological advancements, human capital development, capital stock accumulation, labour force growth, natural resources, institutional quality, and openness to trade.

In the early 1990s, Germany experienced moderate economic growth. However, growth slowed in the late 1990s and early 2000s. In the mid-2000s through the late 2010s, the economy grew at a steady, consistent rate, and after the late 2010s, it began to weaken again. Some of the high points for Germany's economy are the export sector of globally known automobiles such as Volkswagen and BMW, alongside chemicals (including industrial and pharmaceutical products), machinery, and industrial technology firms such as Siemens.



Source: [Goldman Sachs](#)

As of late January 2026, Germany's real GDP growth is estimated at 1%, down from 1.3% forecast in October 2025. So let us break down the cause of this fall and the solutions the government is implementing to recover economically. It is rarely ever one cause, as there are numerous factors that play a role in the function of the economy. One reason is the high interest rates set by the European Central Bank (ECB) since Germany is part of the Eurozone. High interest rates usually have a contractionary effect on the economy as borrowing becomes more expensive, crowding out some of the private investment. Other reasons are the

energy crisis as a result of the Russia-Ukraine war, increasing costs of production, weaker global demand as Germany relies heavily on the export of its goods, an ageing population, and low domestic investment.

So what is in the plan for Germany to increase its economic activity and achieve a higher level of steady economic growth? Fiscal expansion policy is one of the crucial components in achieving this goal through increased government spending, particularly investment in infrastructure and defence. Additionally, investment in “green” transformation and digitalisation, including upgrading energy efficiency as well as promoting electric mobility. Both are included in the new “special investment fund” of €500 billion (GBP 438.5 billion). More specifically, this fund will be used for transportation infrastructure, education and health facilities, climate-friendly technologies, as well as energy networks.

The balance of payments value is the total value of export revenue minus the total value of import expenses. A positive value is referred to as a surplus, while the negative value a deficit. In Germany’s case, the balance of payments has reached the value of €17 (GBP 14.8) billion as of November 2025, indicating a relatively strong surplus with an increase in the exports to the US

United States	Poland	Austria	Czech Republic	Hungary	Turkey	Sweden
11%	6.1%	4.9%	3.3%	2.1%	1.9%	1.8%
France	China	Switzerland	Denmark	Romania	Japan	South Korea
7.5%	5.9%	4.6%	1.5%	1.4%	1.4%	1.3%
Netherlands	United Kingdom	Belgium	India	Finland	Greece	Ukraine
7.1%	5.3%	3.8%	1.1%	0.7%	0.56%	1.2%
	Italy	Spain	Brazil	Norway	Mexico	Russia
	5.2%	3.5%	0.87%	0.46%	1.1%	1.1%
			Canada	United Arab Emirates	Malaysia	
			0.84%	0.46%		
			Portugal	Ireland	Bulgaria	China
			0.7%	0.46%	0.46%	
			Australia	South Africa	Hong Kong	Croatia
			0.4%	0.46%	0.46%	0.46%
				Saudi Arabia	Israel	

Source: [Trading Economics](#)

of 8.9% and other countries, such as China (10.7%), the UK (14.6%), and Russia (1.8%). Imports, on the other hand, have also risen to 1.4%. For the full year of 2025, the surplus equated to €200 (GBP174.6) billion, with an increase in exports by 1% and an increase of 4.4%. Vehicles account for 17% of exports, making them the largest export category, followed by machinery (including nuclear reactors and boilers), which accounts for 16%. Some of the others are plastics, chemicals and electronic equipment.

Germany should be on a route to recovery with the new investment plan, which will increase government spending and have the power to achieve long-term economic growth. Although the German economy has faced recent challenges, its export sector also remains strong, trading with approximately 229 countries and territories worldwide.

The Digital Euro: Reinventing Money or Risking It?

by **Veronika Meleshko**

In October 2023, the European Central Bank (ECB) officially began preparing for the digital euro, a Central Bank Digital Currency (CBDC) that would be a direct liability of the ECB and available electronically to the public. The rise of private digital payment systems, the steady decline in the use of cash, and the rapid growth of cryptocurrencies have pushed central banks to consider public digital currencies to protect monetary sovereignty. However, this move has sparked significant debate. Critics warn of

privacy concerns, risks to commercial banks, and the possibility of financial instability during crises. With over 130 countries now exploring CBDCs, the ECB’s approach could set an important global precedent.

A CBDC is a digital form of state-issued money, which makes it fundamentally different from cryptocurrencies like Bitcoin or standard bank deposits. Unlike Bitcoin, it is not decentralised or speculative but backed by a central authority and designed for stability. Unlike a commercial

bank deposit, it would be a direct claim on the central bank itself, meaning there would be no credit risk if a private bank were to fail. The ECB first began exploring the idea in 2020 and completed an investigation phase in 2023. It is now in a preparation phase, which could lead to formal legislation by 2026 or 2027. This cautious timeline reflects how sensitive and complex the project is.

Sweden's e-krona pilot provides a useful case study. In Sweden, cash is used in fewer than 10% of transactions, showing how quickly physical money can disappear from everyday life. The pilot demonstrated that a retail CBDC is technically possible, but it also revealed practical challenges. Decisions about holding limits, whether the currency should earn interest, and how offline payments would work are not simple. These technical design choices carry major economic consequences, and the ECB has closely examined Sweden's experience when developing its own framework.

Three key issues dominate the debate around the digital euro. First, the ECB has proposed a €3,000 holding limit per person. This is intended to prevent large-scale transfers of deposits from commercial banks to the central bank during periods of financial stress. Economists warn that without such limits, people could quickly move their money into a risk-free central bank account during a crisis, potentially accelerating bank runs. This process, known as disintermediation, could weaken the traditional role of commercial banks in lending and economic growth.

Second, privacy remains the most politically sensitive issue. The ECB has promised "cash-like" privacy for low-value transactions, stating that it would not centrally record personal payment data. However, members of the European Parliament have demanded strong legal safeguards to ensure that neither governments nor the ECB could misuse transaction data. Comparisons are often made

with China's digital yuan, which has faced criticism for enabling state monitoring of spending patterns. For many Europeans, trust in the system will depend heavily on whether privacy protections are genuinely robust and transparent.

Third, the macroeconomic implications extend beyond the eurozone. A successful digital euro could increase the international use of the euro, strengthening its global role. While this may enhance Europe's influence, it could also create challenges for smaller economies, particularly in emerging markets where euro or dollar substitution already occurs. At the same time, supporters argue that the digital euro could promote financial inclusion, particularly for the 10–15% of eurozone adults who remain unbanked. It could also reduce Europe's reliance on large US-based payment companies, supporting the EU's goal of greater strategic financial autonomy.

The scale of potential disruption is considerable. The global payments industry generates more than \$2 trillion in revenue each year. A publicly backed, low-cost digital payment option could reshape competition in this sector, putting pressure on commercial banks and fintech companies. Some analysts estimate that a significant share of retail payments revenue could gradually shift towards the digital euro over the next decade.

Overall, the digital euro sits at the crossroads of monetary policy, technology, geopolitics, and democratic values. If implemented carefully, it could modernise Europe's financial system and make it more resilient and inclusive. However, if poorly designed, it risks undermining privacy, destabilising banks, and concentrating excessive power in the hands of central authorities. The choices made by the ECB in the coming years will therefore be crucial, not only for Europe's monetary future but also for shaping how digital money develops worldwide.

Middle East & Africa

U.A.E & South Korea to sign a \$65 billion Defence and Investment Cooperation Contract

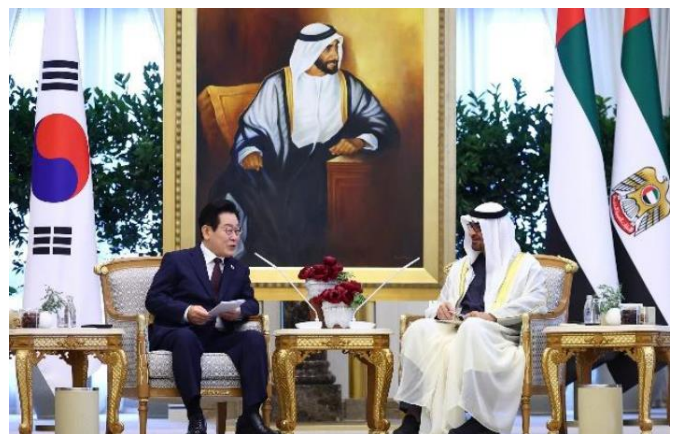
How this multi-billion-dollar contract could improve Defence, strengthen economic unity between Emiratis & Koreans and drive Nuclear Energy & Tech development.

by Shane Silveira

The U.A.E, an economic behemoth with wealth being a synonym for its name, has just signed a two-way Investment contract with South Korea, a GDP giant, with the sole purpose of centring a defence cooperation in the name of a “strategic alignment”. On Thursday, the Presidential chief of staff, Kang Hoon-sik, met with the Chairman of Abu Dhabi’s Executive Affairs Authority, Khaldoon Khalifa Al Mubarak, to cover a colossal contract spanning defence manufacturing, nuclear energy, and advanced technologies. This is not simply another contract like the US-Venezuela oil trade. Instead, it signals a long-term strategic alignment between two mid-sized but globally ambitious economies. Questions flounder: why now, and why at this scale? How could this affect the Global Economy and, more particularly, could Aberdeen indirectly benefit from this? The answer lies in shared economic priorities, geopolitical shifts, industrial integration, lower global costs and possibly a further stall of the “Granite City”.

This is not the first time these two economic giants have partnered to level up their economies mind you. In November of 2025, Seoul had agreed to work with the U.A.E on the U.S-backed Stargate project, which aimed to build an AI Data center in the GCC Country. Additionally, The UAE and South Korea have an already well-established relationship, particularly in the nuclear energy sector. South Korea’s *Korea Electric Power Corporation* (KEPCO) played a significant role in developing the UAE’s Barakah nuclear power plant back in 2009. Furthermore, the U.A.E was the first Gulf country to agree on an economic partnership in

2023. Around 54% of the \$65 Billion contract, exactly \$35 billion, is said to go specifically into both countries’ defence systems. Most primarily focusing on co-development, joint production, maintenance, and training rather than regular arm purchases. The rest of the funds would be invested in Nuclear energy collaborations and developing high-tech for industries, such as AI.



Source: [Trading Economics](#)

President Lee Jae Myung (left), on a state visit to the United Arab Emirates (UAE), on Nov. 18, attends expanded talks with UAE President Mohamed bin Zayed Al Nahyan to discuss the AI-driven Stargate Project.

As mentioned before, the largest portion of the agreement centres on defence. For the UAE, strengthening domestic defence capability is a strategic priority. By working with South Korea on co-development and local production, the UAE moves closer to building a self-sustaining defence industry rather than relying solely on military imports from countries such as the U.S. For South Korea, the Middle East represents a major growth market. Expanding defence exports strengthens its global position and

diversifies its customer base beyond traditional partners. Importantly, the agreement emphasises long-term collaboration across the entire defence lifecycle, indicating a huge loyalty pledge among both countries if any outside conflicts arise.

Energy remains a pillar of the relationship. South Korea's expertise in nuclear power complements the UAE's strategy of diversifying its energy mix and moving away from non-renewable resources such as oil, which has been the country's speciality since its formation. Nuclear energy provides stable and sustainable baseload power while supporting the UAE's broader sustainability goals. This cooperation also enhances Korea's reputation as a reliable nuclear technology exporter, further announcing it as a dominant competitor in a global market.

High-tech cooperation reflects broader global economic trends. Both nations aim to strengthen advanced manufacturing, digital technologies, and innovation sectors. To answer why both countries would carry out such a significant investment contract currently, can be answered by Artificial Intelligence. As many industries start incurring costs of implementing AI in their operational processes, both partner countries have expressed a keen interest in introducing AI to their Nuclear sector collaboration. With such noticeable upgrades in technology, not only will this benefit S.K and the U.A.E in the long term for a global lead in nuclear energy, but it can introduce current investment flows which can streamline industrial integration and further long-term strategic alignment.

Globally, the partnership could reshape energy and defence markets, encourage cross-border

tech transfer, and attract investment from sovereign funds looking for long-term infrastructure opportunities. A lot of the Gulf and East Asian countries can see this inspiration and may form strategic partnerships among themselves. Though not much change may be seen in the short term, long-term changes could see a global reduction in nuclear energy prices due to a higher supply. More advanced tech becomes available to the public and private sectors, plus an empowering global defence system. For Aberdeen, a hub for offshore energy, the agreement may bring indirect opportunities: contracts for offshore platform technology, consultancy, maritime security, and funding for energy projects. However, due to the depletion of oil in the North Sea Basin, plus a high reliance on the commodity, and no nuclear adaptation, Aberdeen's economic reputation could be further diminished. The change would be very ambiguous, as it comes down to the subsequent measures that each country would take.

The \$65 billion U.A.E and S.K agreement represents a calculated strategic move by both nations. Built on trust from past cooperation, it expands into defence, nuclear energy, and high-tech industries at a scale that reshapes their bilateral relationship, the global economy and Aberdeen's current energy situation. To dive further within, I highly recommend reading further on S.K's 2009 investment in the Barakah nuclear power plant to understand the countries' past relationship and venture into their 2023 establishment of a voluntary carbon market in Asia.

The Global Market Response to the Middle East Escalation

by Aayush Kulkarni

A sudden geopolitical escalation initiated a definite tremor across global energy markets, defence stocks and investor sentiments, which is creating renewed concerns over trade disruption and inflationary pressures.

Due to the reported death of Iran's Supreme Leader in US and Israeli strikes, there is more regional tension that has sent ripples through global financial markets. Despite geopolitical implications, the economic consequences were instant. We saw a rise in oil prices, more volatility in equity, and investors carefully swaying to safe-haven assets. However, markets are analysing the security of energy supply, trade route safety, and the strength of inflationary pressures, where central banks are thinking twice about easing policy. Risk premiums are spread across commodities, and defence stocks pull in regained interest. This episode shows how easily geopolitical events can regenerate the flow of capital, expectations on supply, and macroeconomic prospects globally.

The economic importance of the region isn't just because of how geopolitically sensitive it is, but also because of its main role in global energy and trade infrastructure. The Middle East controls roughly 33% of global oil production and a much greater proportion of its proven reserves, meaning any faults or discrepancies there are immediately relevant to energy pricing dynamics. A significant percentage of global crude exports are shipped through the Strait of Hormuz. The risk of instability in such a tight chokepoint brings to light what economists refer to as a geopolitical risk premium. This is an additional cost incurred in commodity prices to account for the uncertainty and potential of supply jolts. This premium is spreading quickly through future markets, which is affecting oil prices as well as the expectations of inflation and shipping costs. When the FTSE 100 opened lower in early trading, S&P 500 futures edged down, reflecting a cautious shift in investor sentiment. To highlight this, the muted equity

response suggests investors view the escalation as more contained than systematic. High energy prices are eating away at production costs, transport expenses, and finally, consumer price indices. The results show markets responding to the actual rupture in supply, but also to the likelihood of escalation, amplifying the volatility much before physical flows are interrupted.

Oil Markets & Inflation Risk: The sudden peak in crude prices is a direct reflection of risk rather than a definite supply disruption, markets are pricing in the likelihood of one. Energy markets operate on expectation as much as physical flows. Even the way instability is perceived in an important producing region is enough to drive future contracts higher. When prices increase rapidly at the front end of the futures curve, this signals concerns over the short-run supply shrinking rather than long-run structural scarcity. There are also inflationary connotations. Oil is a primary functional input in transport, manufacturing and agriculture. This means sustained price increases feed directly into production costs before hitting consumer price indices. For banks such as the Federal Reserve and the European Central Bank, renewed energy volatility complicates monetary policy decisions. A new commodity shock could prolong predicted rate deductions or imply a higher for longer interest rate environment, tightening financial conditions even when demand is stable.

Defence Sector & Capital Reallocation: Despite widespread equity markets sometimes retreating during geopolitical escalations, defence contractors often see surging valuations. More security risks mean there is a likelihood of more military budgets, procurement cycles, and long-term contract visibility. Markets immediately take advantage of these aspects in their valuations. Shares in companies such as BAE Systems and Lockheed Martin have historically rallied during times of sustained geopolitical tension. This is a

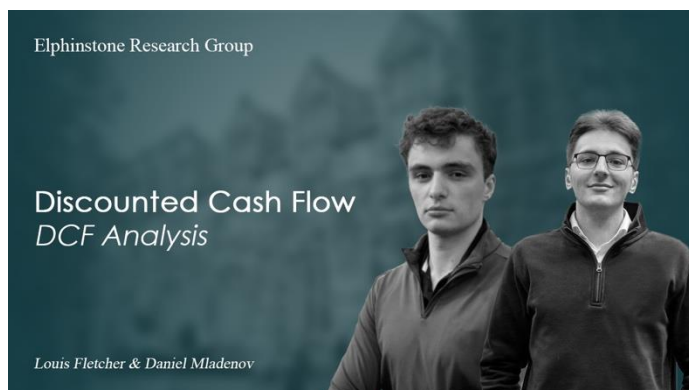
reflection of investor anticipation in more government spending instead of direct revenue shifts. This demonstrates a wider circumstance of reallocation whilst there is uncertainty. Investors usually distance themselves from cyclical and consumer-sensitive sectors, moving more to industries that are stable in demand slowdowns. Energy and defence sometimes become a safe haven in equities because they shy away from standard volatility, and their revenue is locked to state spending instead of household consumption.

Trade Routes & Supply Chain Exposure: Much more than financial markets, the next direct structural risk is global trade logistics. Most notably in the Suez Canal, any disruption from conflict or security threats means uncertainties in transit and insurance premiums, even if physical closures are steady. Shipping markets have a quick response to these problems. Freight rates can increase when vessels reroute around the Cape of Good Hope, adding more time and fuel to already strained supply chains. The additional logistical amendments cost more for the producer, creating inflationary pressures far beyond just energy. The Canal blockage in 2021 is a perfect example of how temporary obstruction can cause weeks of downstream displacement, further proving how shortages of inventory and manufacturing inputs cascade.

A good benchmark to start from is the global market reaction following the Russian invasion of Ukraine. A few weeks after the invasion, Brent Crude spiked above 120 dollars a barrel,

European natural gas prices hit record highs, and peak inflation was recorded around the top economies. What looked like a geographically based conflict merged into a long-lasting energy shock, forcing central banks to squeeze monetary policy more than ever anticipated. Notably, markets did not realise the severity of how long the supply disruption and skewed energy inflation would last. Risk premiums integrated into commodity and equity markets carried on far longer than early pricing suggested. A lesson for investors is that the economic consequences of a geopolitical crisis are determined when supply restraints become structural instead of temporary, rather than just the initial shock.

The reported death of Iran’s Supreme Leader and emerging regional escalations have further demonstrated the economic implications discussed in this article. Market prices in energy, defence, and global trade channels, along with reinforcing risk premiums in oil futures and safe-haven assets, have heightened uncertainty. Investor confidence may be brittle until there is more clarity on geopolitical trajectories and de-escalation efforts. In the meantime, trade routes and shifts in government spending might drag out pressure on costs much further than the immediate timeframe. At the end of the day, the economic fallout in commodity markets, capital allocation, and supply chain dynamics will depend on how governments and markets readjust expectations during times of such uncertainty.



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Asia

China's 15th Five-Year Plan: The Path Towards Technological Self-Reliance

by Apurbo Zunaid

Beijing is starting the Year of the Horse with its 15th Five-Year Plan, commencing this year and ending in 2030, to improve its economy further. The main aim of this Five-Year Plan is to make China self-reliant in technology, to empower local tech businesses and cut dependence on foreign suppliers. According to Xi Jinping's recent messaging, this plan treats "innovation" as an economic priority and also as a strategic insurance. The plan hints at more state coordination: bigger R&D budgets, targeted procurement to favour domestic suppliers, and industrial funds aimed at semiconductors, AI, biotech and quantum.

These Five-Year Plans were initially inspired by the Soviet Union's 5-year plans under Stalin, which made rapid industrialisation possible for the USSR in order to catch up with the technological power of Western European countries from 1928 to 1941. When the People's Republic of China was founded in 1949, the Chinese leadership, under Mao Zedong, saw the USSR as a model worth emulating for rapid industrial and economic growth.

China's leadership frames tech self-reliance as an economic-security necessity: close chokepoints in advanced chips, equipment and other critical inputs while pushing new technologies deeper into the economy so R&D actually boosts productivity. According to reporting by Reuters, the early signals focus on three policy pillars: scale up basic research spending, use state funds to build domestic demand for frontier tech, and strengthen financial safeguards to manage risk.

Who's driving this? The Politburo and the State Council set strategy, with day-to-day execution through agencies such as the National Development and Reform Commission (NDRC).

According to State Council documents and NDRC guidance, central funds and provincial match-funding will be important tools.

Lessons from past industrial pushes are mixed. "Made in China 2025", which was a state-led industrial policy that sought to make China dominant in global high-tech manufacturing, helped build capacity and bigger manufacturing lines, but it didn't solve the hardest issues, like advanced chip-making technology (EUV machines) or cutting-edge design software, and it also caused political and trade tensions with other countries. According to a review by USCC, China's R&D intensity rose (recent figures from the National Bureau of Statistics show R&D/GDP moving toward the mid-2% range), which gives the plan a strong start but not a guaranteed path to frontier mastery.



Figure 1. China R&D spending, % of GDP, 2016-2020

Source: CGTN

Several economic effects can be expected. First, heavy state capital expenditure and subsidies will support jobs and industrial scale, but there is a real risk of misallocated capital if targets are unrealistic. Second, import-substitution in chips and critical inputs will reshape trade flows and regional supplier networks. According to trade data compiled by OEC, China still imports large volumes of high-end semiconductor equipment

No.	Period	Key Effects & Outcomes
01.	1953-1957	Heavy industry expansion, strong GDP growth, foundation of state-owned industrial base, highly centralised system.
02.	1958-1962	Rapid collectivisation and steel campaigns, catastrophic agricultural collapse, famine, major economic contraction.
03.	1966-1970	Inland military-industrial buildup, strategic resilience, inefficient allocation and high fiscal cost.
04.	1971-1975	Gradual industrial recovery, political instability during Cultural Revolution limited effectiveness.
05.	1976-1980	Under Deng Xiaoping’s leadership: Economy rebalancing, groundwork for market reforms, modest stabilisation after political turmoil.
06.	1981-1985	Agricultural de-collectivisation, township enterprises rise, faster GDP growth, beginning of private sector expansion.
07.	1986-1990	Special Economic Zones strengthened, export-led growth, inflation pressures emerged.
08.	1991-1995	Strong industrial growth, infrastructure expansion, rising inequality between coastal and inland regions.
09.	1996-2000	Large SOE restructuring, layoffs but efficiency gains, foundation for WTO accession.
10.	2001-2005	Export boom after WTO entry, rapid urbanisation, widening trade surplus.
11.	2006-2010	Focus on energy efficiency and environmental policy, continued high growth, rising local government debt.
12.	2011-2015	Push to reduce export dependence, slower but more stable growth, tech upgrading began accelerating.
13.	2016-2020	Industrial upgrading, semiconductor and AI investment, trade tensions escalated, mixed tech self-sufficiency results.
14.	2021-2025	Stronger domestic demand emphasis, increased R&D spending, property slowdown exposed structural weaknesses.
15.	2026-2030	Expected deeper semiconductor, AI and biotech investment, stronger industrial policy, potential growth support but risk of capital misallocation and deeper global decoupling.

and materials. Third, a tilt toward domestic producers could lower some foreign investment while fostering protected national winners. Finally, the balance between quick scale-up and nurturing genuinely competitive firms will determine whether this plan raises long-run productivity or just creates rent-seeking industry champions. According to analysts at MERICS, sequencing, pickable targets, international cooperation where possible, and realistic timelines will matter.

As seen in Figure 2, China heavily depends on other countries for chips, which the leadership rightfully views as a national security threat. The U.S.-China semiconductor conflict still remains volatile, caused by tightened U.S. export controls, stalled sales of advanced AI chips, and Chinese retaliatory measures. The 15th Five-Year Plan makes technological self-reliance both an ambition and an insurance: Beijing wants to protect growth and autonomy in a more contested world. According to China Briefing, the plan’s tools are familiar, big public R&D, procurement, subsidies, but the hard part is frontier physics, supply chains and turning lab results into exported products. If the government invests carefully and keeps some market competition, the plan could genuinely strengthen China’s tech sector. But if it relies too

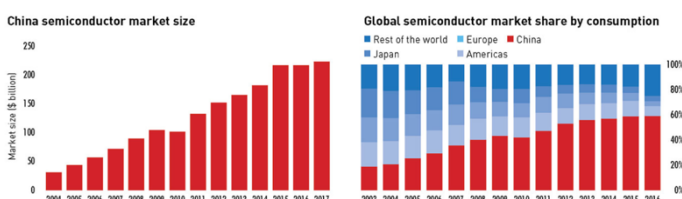


Figure 2. China imports far more semiconductor products than any other country

Source: CKSB Knowledge

heavily on broad subsidies and protectionism, it may create more factories without improving efficiency, and increase tensions with other countries.

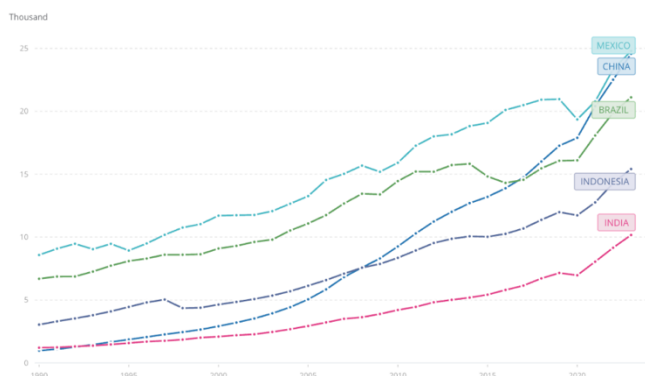


Figure 3. GDP per capita PPP in current day USD comparison of China, Mexico, Brazil, Indonesia and India 1990-2024

Source: World Bank

Re-Wiring Globalisation: Inside the EU–India “Mother of All Deals”

by **Khanak Thakur**

The EU–India Free Trade Agreement (FTA), hailed by European Commission President Ursula von der Leyen as the “mother of all deals”, marks an inflexion point in contemporary globalisation. It is the largest trade agreement either side has signed, creating a free-trade zone that spans two quasi-continental economies and nearly two billion people. Yet its significance lies less in headline tariff cuts than in how it seeks to re-engineer interdependence: away from laissez-faire liberalisation and towards managed, rules-based integration that fuses trade, technology and security. The FTA is best understood as an experiment in “strategic globalisation” between the European Union and India, designed to reconcile openness with resilience and regulatory power.

Negotiations between Brussels and New Delhi have been torturous. Launched in 2007 and effectively frozen by the mid-2010s, they were revived against a very different backdrop: paralysis of the WTO’s dispute settlement system, intensifying geo-economic rivalry with

China, and mounting concern over “weaponised interdependence”. The parallel creation of an EU–India Trade and Technology Council signalled that this would never be a narrow tariff-only exercise. Instead, officials framed the FTA as a central pillar of a wider strategic partnership encompassing critical technologies, secure supply chains, and green and digital transitions. The political economy of globalisation has shifted: market opening now travels together with security logics and regulatory projection.

For India, the rationale for entering this ambitious agreement is threefold. First, the EU is already one of India’s key trading partners, and an FTA locks in preferential access at a moment when the United States is re-embracing tariffs and industrial policy. Strengthened access for labour-intensive exports- textiles, leather, gems and jewellery, pharmaceuticals as well as IT and business services sits at the heart of New Delhi’s growth calculus. Second, the deal serves as a diversification strategy. Having

walked away from the Regional Comprehensive Economic Partnership and remained cautious about deep commitments in East Asia. India now uses a web of agreements to embed itself in multiple value chains while preserving strategic autonomy. The EU FTA fits this pattern: it offers an alternative pole of integration that reduces over-reliance on any single market.

Third, the regulatory chapters provide a pathway for industrial upgrading. Provisions on digital trade, intellectual property and standards present risks, especially around data flows and regulatory space, but they also offer Indian firms a roadmap for entering higher value segments of global value chains. If tied to domestic industrial policy and capacity-building, cooperation on artificial intelligence, semiconductors and green technologies could help India move beyond assembly into design, standards-setting and ecosystem leadership. In that sense, the FTA is a potential vehicle for altering India's position in the global division of labour, away from a peripheral supplier of low-cost labour and towards a more central node in technology-intensive sectors.

For the European Union, the agreement pursues an equally strategic agenda. Europe's long reliance on open trade is now tempered by concerns over de-industrialisation, Chinese overcapacity and vulnerabilities in critical inputs from rare earths to medical supplies. The EU–India FTA responds by seeking both market opportunities and diversification. European manufacturers, particularly in automobiles, machinery, chemicals and higher-end agrifood, stand to gain from phased tariff elimination and improved regulatory transparency, as well as more predictable investment conditions. More importantly, the EU secures preferential access to a large, fast-growing market at a time when access to China is politicised, and U.S. trade policy is volatile.

Equally, the FTA is a vehicle for projecting the EU's regulatory power outward. Chapters on sustainable development, labour and environmental standards, and digital governance embody the Union's self-image as a "regulatory superpower". Through them, Brussels attempts to externalise elements of the European Green Deal, such as carbon-related

measures and product standards, and to promote its approach to data protection, AI ethics and platform regulation. In doing so, it shifts part of the cost of its own high standards onto trading partners, but also offers them predictable access and the possibility of co-shaping emerging norms. With India, this is especially significant: rather than imposing rules on a small neighbour, the EU engages a rising power whose consent is necessary to give global traction to any regime on data or climate-related trade measures.

The EU–India FTA thus illustrates a move from a singular paradigm of efficiency-driven liberalisation to a hybrid of efficiency, resilience and normative competition. On the efficiency axis, traditional gains from trade remain: tariff cuts and trade facilitation should deepen cross-border supply chains, lower prices and reallocate production along comparative advantage. On the resilience axis, both sides explicitly use the agreement to diversify away from concentrated dependencies: Europe away from China in certain inputs and markets, India away from the U.S.-centric or China-centric profile. On the normative axis, the FTA becomes a platform where two large democracies articulate shared, but not identical, preferences on digital rights, intellectual property, climate governance and security screening of investments.

The distributional and political risks, however, are considerable. On the Indian side, the FTA may intensify competitive pressure on sectors that are politically sensitive and economically vulnerable—small-scale farmers, micro and small enterprises, and segments of light manufacturing. Even if the agreement includes asymmetrical liberalisation schedules and safeguards, the fear of being undercut by cheaper, higher-quality European imports is real. Without robust domestic adjustment policies—credit access, social protection, retraining and industrial upgrading—gains for export-oriented sectors could coexist with heightened precarity and social conflict.

In Europe, the agreement will feed into a fraught debate about the social sustainability of globalisation. For workers in import-competing sectors and regions already hit by

de-industrialisation, the prospect of increased competition from Indian producers may provoke resistance, even if overall welfare gains are positive. Unless European policymakers can credibly demonstrate that the benefits of the FTA support jobs, innovation and the green transition at home, rather than merely boosting corporate profits, they risk fuelling protectionist and nationalist narratives.

Taken together, the EU–India FTA should be read less as the endpoint of a negotiation and more as the opening chapter of a new, experimental phase of globalisation. Its design entwines market access with security, industrial

strategy with regulatory projection, and bilateral bargaining with wider multilateral implications. If it functions as intended, the FTA may furnish a template for North–South partnerships that are neither purely extractive nor naively liberal: combining managed openness with joint rule-making and some recognition of developmental needs. If it falters, whether through domestic backlash, implementation deficits or geopolitical shocks it will reinforce the argument that mega-regional deals have become politically unsustainable and normatively thin.

Technology

The Unholy Matrimony Between Trade and State

by Dayaan Khokhar

The last decade has seen an unprecedented collaboration between Big Tech (largely defined by technology corporations that make up the upper end of market value in their sector – typically limited in this article to the GAFAAMT) and the government. The very industry that was once the target of ready regulation in the early 2000s has spun into a funding baby that works in tandem with governments to serve whatever local agendas need attention. The modern version of equipping government offices with Windows-ready computers is the supply of graphics processing units (GPUs) for data centres that power military strategy and surveillance through the support of the joint effort between NVIDIA and Palantir, for instance.

It isn't too hard to point to military contracts when trying to establish perverse links between necessary services for consumers and the governments that monitor them, but it is important to assert that some links do need to take place. Consider the exploding population

after the second World War the world over; the US's need for increasingly efficient public services in a new age of technological and economic growth all but necessitated the adoption of stable computing for operations that humans could not hope to scale up to. For this purpose, Microsoft software-equipped computers were best. This gave the tech giant unprecedented access to public information and, more importantly, public officials. That relationship capital undoubtedly paid off when, in 2020, they were awarded a \$230M contract with the Department of Homeland Security (DHS) alone. Of course, this does not account for the other multimillion dollar contracts that different governmental departments awarded them that year.

The EU recognizes this link between technology corporations and public services. In the interest of digital sovereignty and the pursuit of improved cybersecurity, states like Germany, Finland and Italy are moving to adopt open-

source alternatives to the Microsoft-dominated public works sector. Despite the benefits of the “it just works” approach that the US government has adopted with Microsoft, the EU weighs the risks of mass surveillance, influence and control as heavier than the boons.

On that note, it is worth looking at the potential consumer impacts on a social and economic level. Prices, privacy and promotions (3Ps) are the main points worth exploring.

First, an alignment of technological data gathering and governmental monitoring/control agendas means that consumers have little power over the market; governments are unlikely to control and regulate markets that benefit their agendas, and corporations are obligated to grow indefinitely, even if that means harming consumers in the process. A capitalist market where prices are not determined by demand, instead by regulatory preference, rapidly changes consumer spending and priorities, collapsing systems and institutions that public and private investment overindexed in. Even with the loss of resources and technology from such a collapse, consumers are more affected than the largest corporations who are sure to get “bailed out”; banks are likely to take conservative stances to wealth generation strategies thereby limiting opportunity, businesses are likely to hike prices in the short-term to hedge against uncertain spending habits, and debt collectors are likely to get even more aggressive in flexible contracts. All of this means less disposable income and/or cash flow for consumers, collapsing markets and leading to mass unemployment.

Secondly, preferential treatment for Big Tech spells the inevitable exploitation of consumer privacy. Sectors built on blistering innovation will see mass adoption only upon a successful “race to the bottom.” This is why most technological services are free. Once embedded into a consumer’s workflow or personal life, they become inseparable. This is when implicit (or even explicit) costs are manifested through subscriptions and/or the selling of private data. Even anti-surveillance technology from, say, Apple, is deceptive. When external tracking is turned off, Apple still tracks consumer information identically to how other apps might and uses that information to target ads at users

who pay the full price for devices that should rightfully be theirs. As mentioned earlier, ubiquitous software that gathers information can also be leveraged as part of surveillance campaigns that infringe on consumers’ rights to privacy, protests, and freedom of speech. Despite the EU’s efforts toward digital independence and consumer protection, some of its own states are guilty of this.

Thirdly, the permission to gather and sell data proliferates unsolicited promotion on platforms and devices that users pay to use. This is an undermining of property rights and an infringement of consumer independence and sovereignty. Moreover, the invasive nature of advertising on devices and private property means that major subsections of important markets are dedicated towards the buying and selling of information, wasting resources, the opportunity to innovate, and driving up costs and consequently prices, that only make services even more cost-prohibitive. Socially, this disappoints consumers. Economically, it disenfranchises them.

Most of the issues outlined above stem from the unchecked power consolidation in technology markets. With the combined unregulated absorption of competition and governments that are content with the exploitation of their constituents, it is unlikely that meaningful change can occur without the mass collapse that economists have been predicting since the start of the post-COVID era. Given that most of the GAFAAMT’s forays into innovation fail they need to buy out their competition and leverage their talent in future projects. This runs up internal costs that are passed on to the consumer in various exploitative ways. As competition decreases due to acquisitions, consumers have less power to effect change in their markets of interest. The best way to counter this is to break up megacorporations and to foster a climate where competition is both lucrative and viable again.

At this stage, the ball is in the government’s court. It is up to elected officials to wake up and to look over at the other side of the bed and realise that the institutions that they’ve been lying do not have the best interests of their constituents in mind. If consumers are to be protected, a dramatic breakup is in order.

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