

Are the Informational Boundaries of the State Being Redrawn

From production networks to attention markets

Thiemo Fetzer

August 2026

The geopolitical contest now runs on two coupled struggles.

1. Control over the material world
2. Control over narrative space

Democracies are vulnerable on both fronts, the US asserting dominance in both is entirely rationalizable.

Roadmap

I. Material world

production networks,
choke points,
weaponization

II. Narrative world

causal claims, filters,
noisy transmission,
attention markets

III. AI augmented society

data, code, capabilities,
trusted public
infrastructures

Battle between two production systems and paradigms

- ▶ Natural **resource rent** centric economic system with private resource control
- ▶ **Weaponization of everything.**
- ▶ Structural transformation of the **hydrocarbon-based economic system** raises questions around public and private investment and the role of the state.
- ▶ Growing discussion on the **boundaries of the state**, firms, and individual households due to the growing role of (digital) service trade amidst a fraying global trade order.
- ▶ Escalation induces countries to focus on economic security, de-risking and rethinking conceptualizations of **sovereignty**.

→ emergence of coalitions to drive forward climate action is vital

B B C   Home  News  Sport ... 

NEWS

Why firms are bringing their manufacturing back home

≡ FINANCIAL TIMES 

Donald Trump steps up warnings to US business over offshoring

≡ Forbes

FORBES > BUSINESS > MANUFACTURING

Covid Is Fading, But Reshoring Isn't

News provider of the year

The Guardian UK 

Economics viewpoint

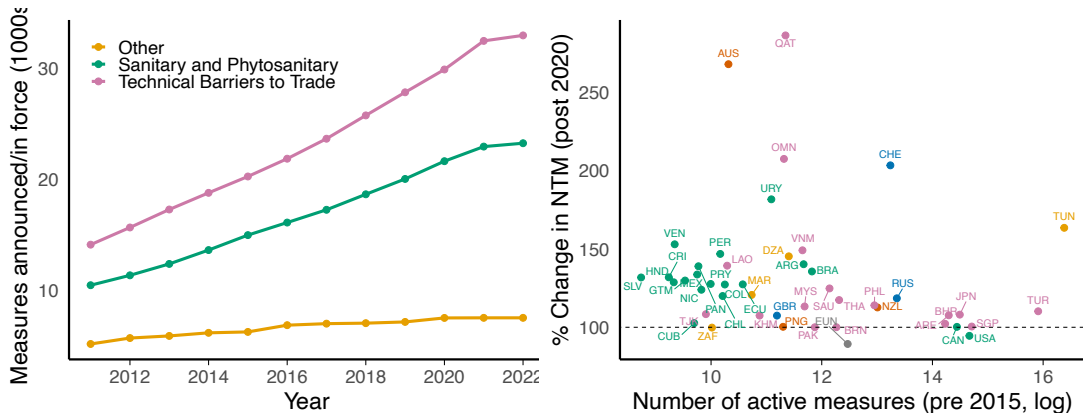
Globalisation is not dead, but it is fading: 'glocalisation' is becoming the new mantra

≡ **The New York Times** 

Supply Chain Woes Prompt a New Push to Revive U.S. Factories

Companies are testing whether the United States can regain some of the manufacturing output it ceded in recent decades to China and other countries.

Rising trade barriers/disputes



Rising trade barriers/disputes

Figure: Increasing trade disputes

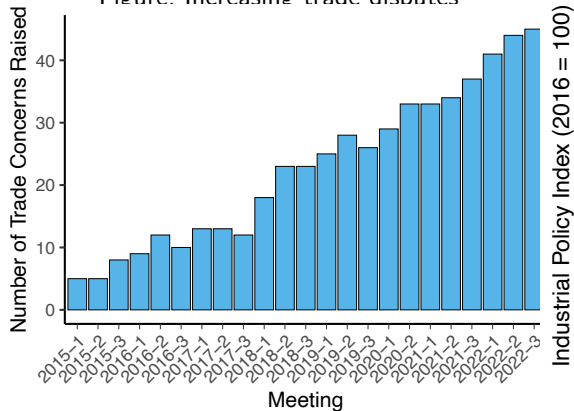
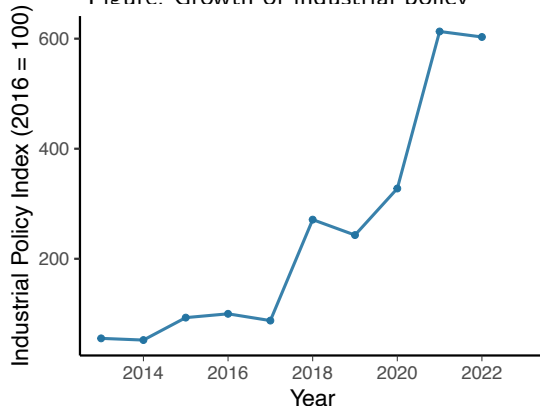


Figure: Growth of industrial policy



Identification of vulnerabilities requires networked knowledge

- Want to assess how shocks propagate through **production networks**
- But how do we measure the relevant set of **upstream goods**?
- Ideal measurement is based on **production processes**
 - ▶ not just market transactions - think *payment data*
 - ▶ granular enough to match rich trade data

→ much broader tension is over future governance of such data (via private e.g. stablecoins, public or a hybrid system)

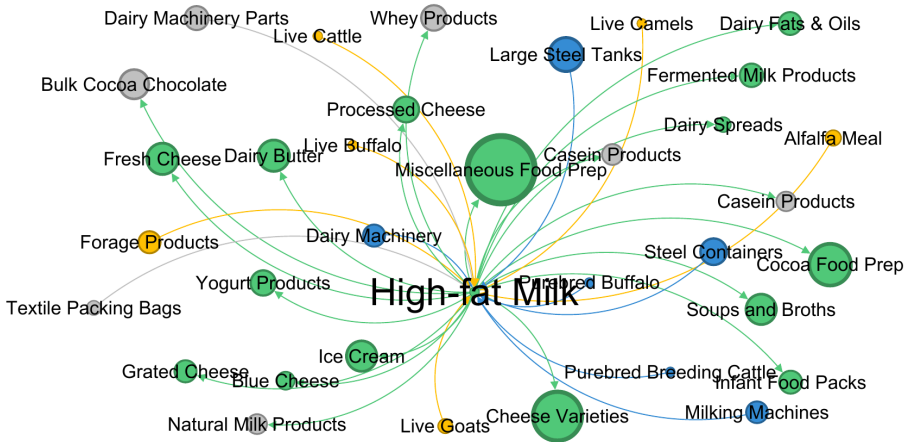
<https://x.com/fetzert/status/1898985696569836014?s=20>

Introducing A Production Knowledge Graph – AIPNET

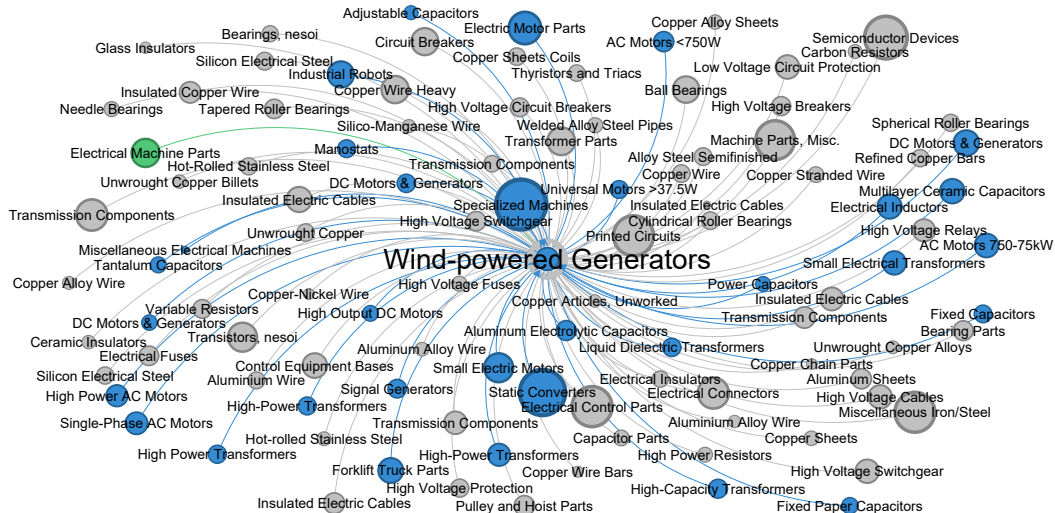
- **AI-built Production Network (AIPNET)** introduced in Fetzer et al (2024)
- Uses AI / LLM retrieval to systematically identify vertical product linkages
- Trained, tuned, and validated for this purpose
- Recovers **technical requirements** across more than 15,000 products

Example output: High-fat Milk

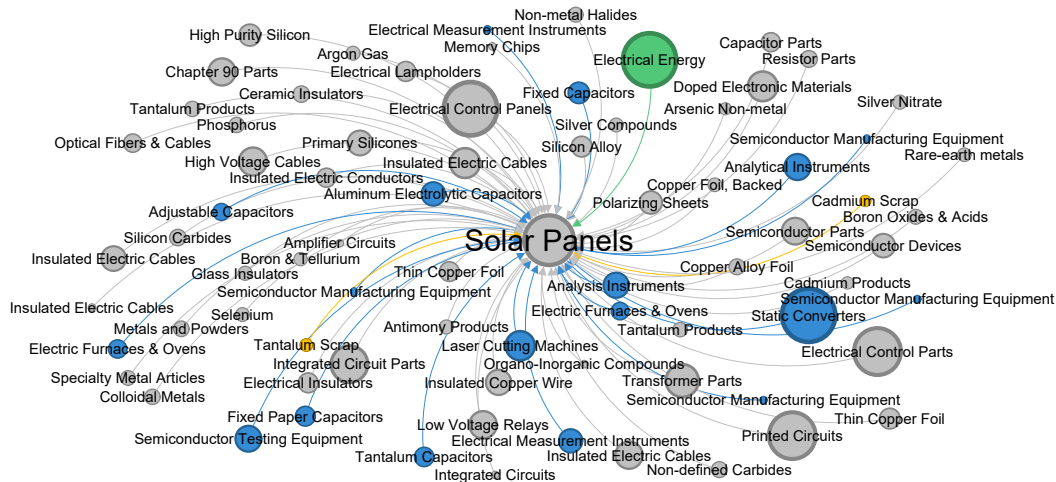
Example output: High-fat Milk



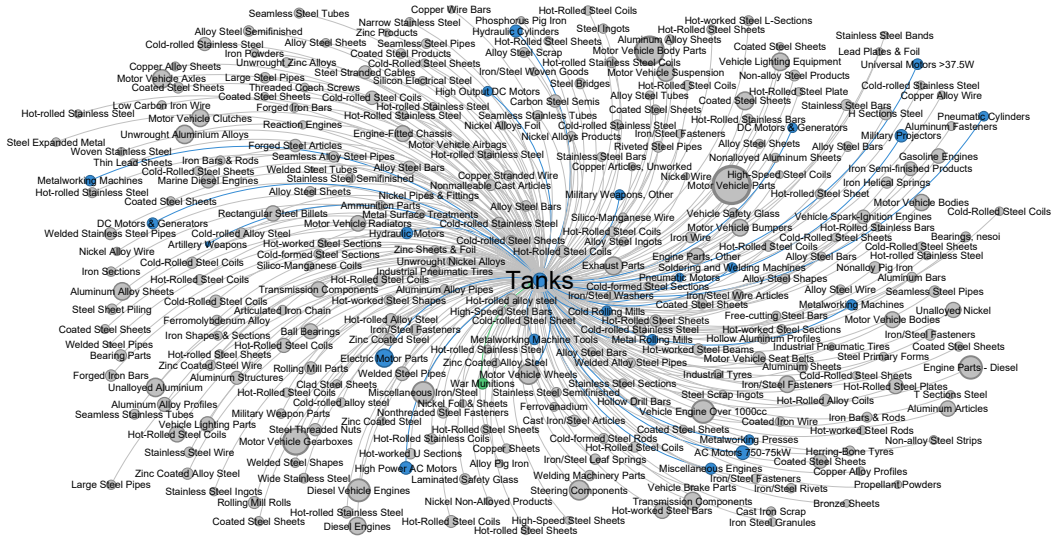
Example output: Wind-powered Generators



Example output: Solar Panels



Example output: Tanks



Integrated Global Product Centrality (IGPC)

IGPC defines product importance using three ingredients.

1. **Global trade share** - how much world trade a product represents
2. **Trade concentration** - how dominated a product is by a few players on **supply** and **demand** side
3. **Network position** - where the product sits in AIPNET
→ capture static and dynamic as well as production process choice

IGPC is a network-weighted importance measure

For each product k , define baseline exposure as

$$B_k \propto (\text{Exporter Concentration}_k)^{\alpha_S} (\text{Importer Concentration}_k)^{\alpha_D} (\text{Global Trade Share}_k)^\beta$$

NIC combines this baseline with propagation through the input network:

$$g^{(r+1)} = (1 - \delta)B + \delta P(g^{(r)} \odot W),$$

with

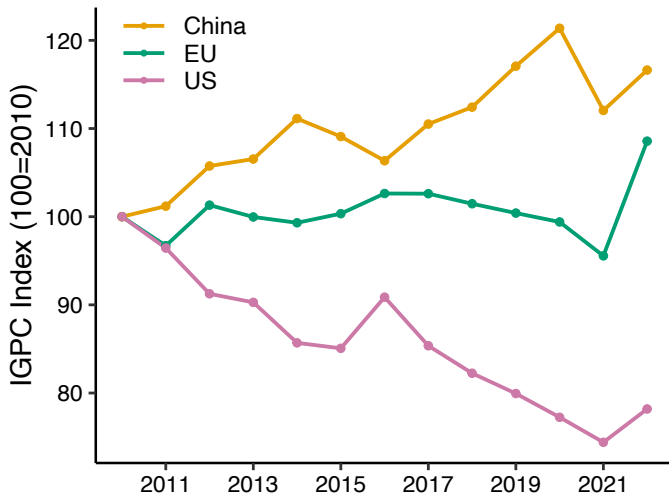
$$W_k = (\text{Global Trade Share}_k)^{\gamma_G} (\text{Exporter Concentration}_k)^{\gamma_S} (\text{Importer Concentration}_k)^{\gamma_D}.$$

The NIC score is the fixed point of this iteration:

$$\text{NIC}_k \propto g_k.$$

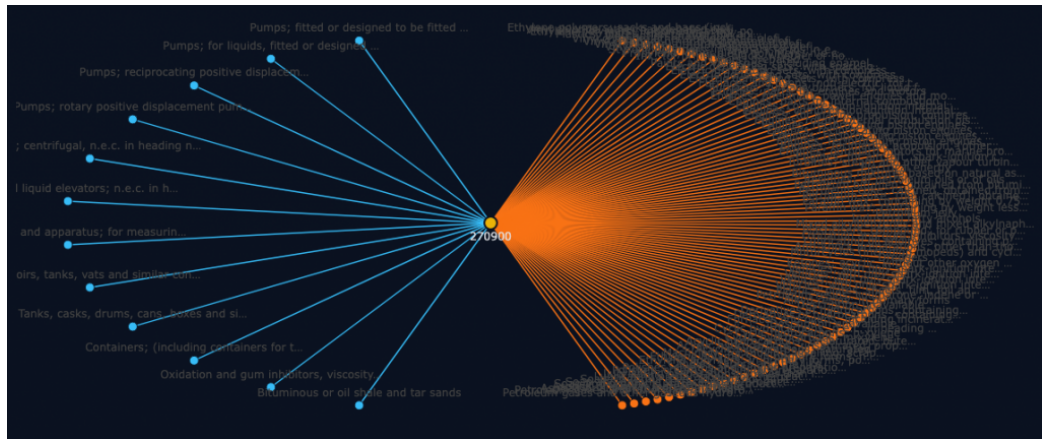
→ think of it as PageRank for tradable production systems.

IGPC trends for three main geopolitical blocs

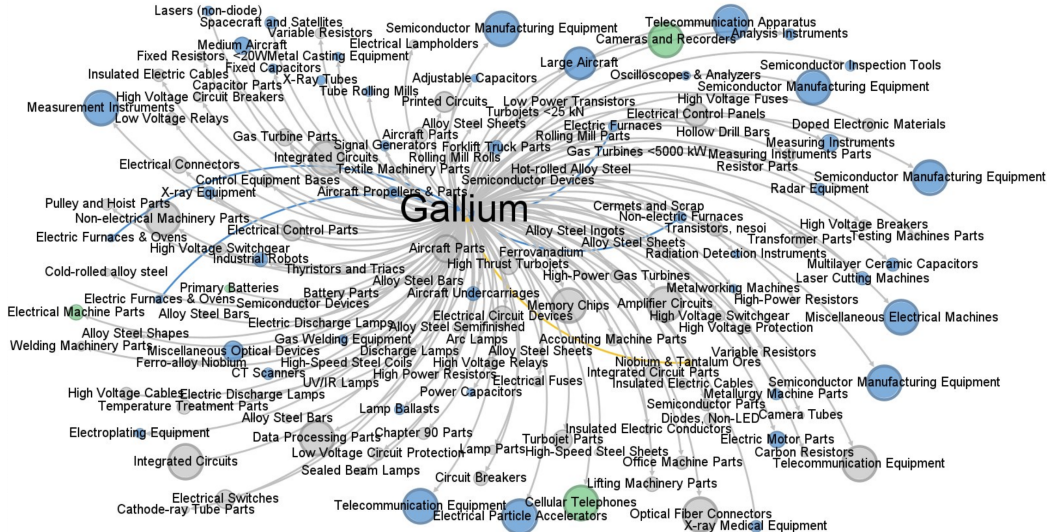


In next slide explain what is going on here...

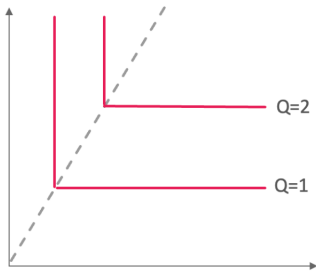
Crude oil sits inside a deep and redundant input network



Gallium is a small node with disproportionate downstream reach

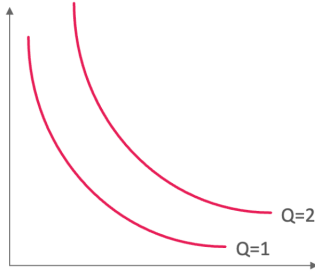


Both wield power in different ways...



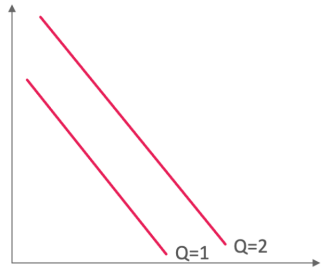
Gallium

Gallium is Leontief
narrow but strategic
weak substitution
leverage through chokepoints

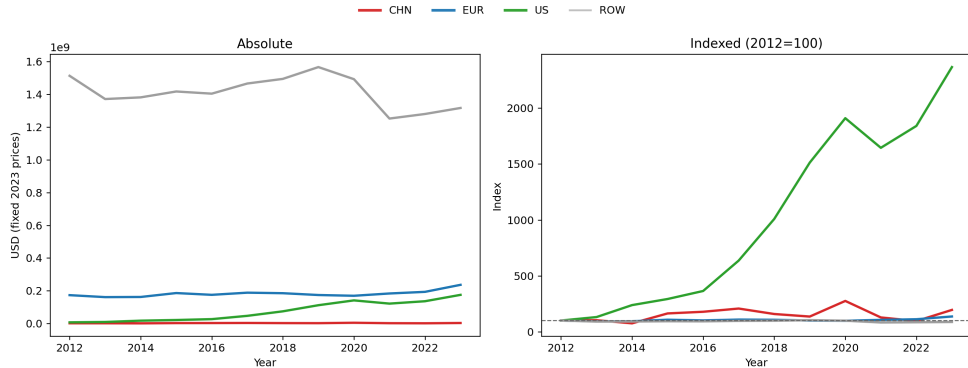


Crude oil

crude oil is increasingly substitutable
deep network reach
broader substitutability
leverage through volatility and price

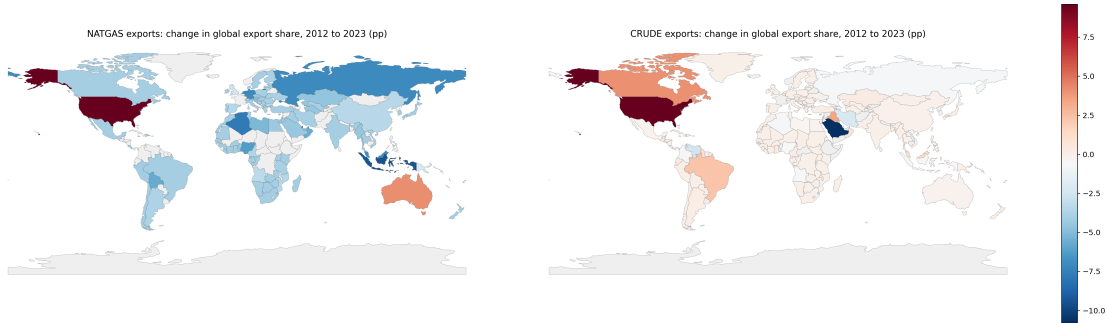


US specialization...



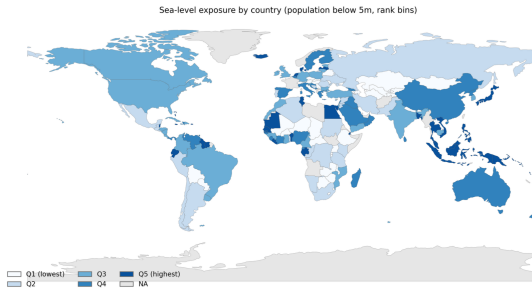
→ sharp increase in US hydrocarbon exports in recent decade owing to fracking facilitated by widespread private ownership of mineral resource rent in the US

US specialization...

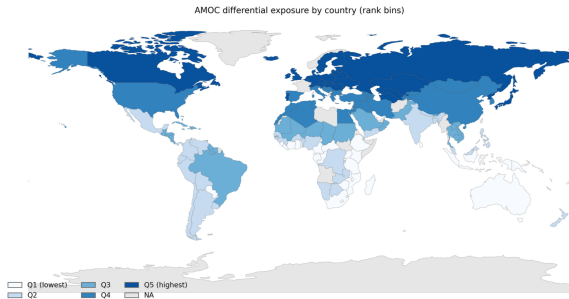


→ the US is now a hydrocarbon export super power but with a specific weakness...

Climate action



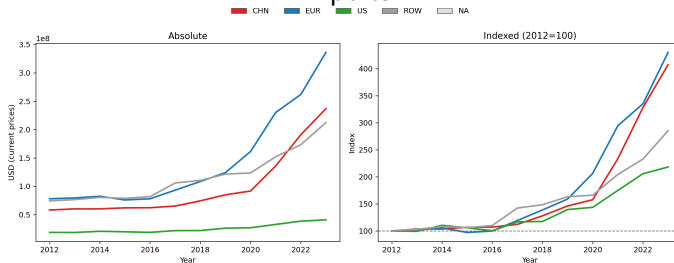
(a) SLR exposure channel



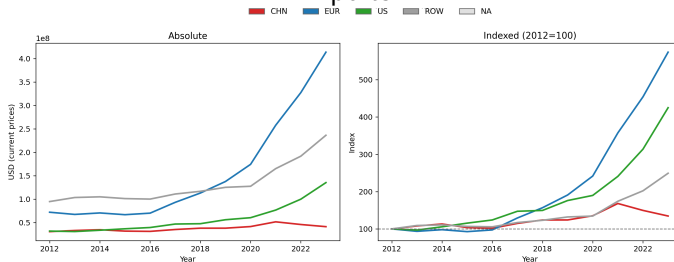
(b) AMOC exposure channel

Meanwhile Europe and China...

Exports



Imports

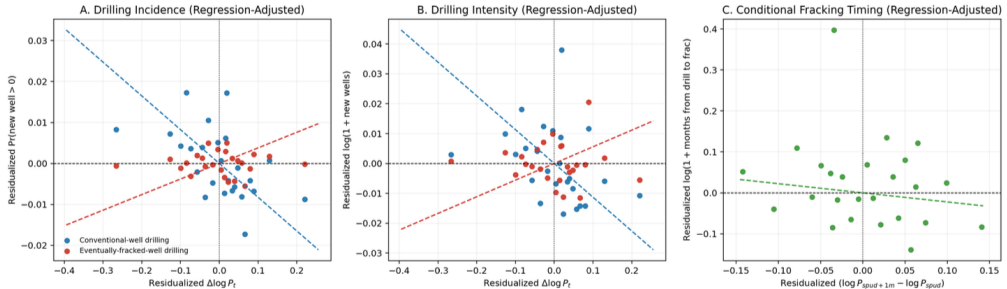


Enter geopolitics...

- ▶ Pivot away from trade settlement in USD in particular crude oil
- ▶ Corridor geopolitics
- ▶ Material concentration of supply chains
- ▶ Climate vulnerabilities
- ▶ Containment incentives
- ▶ ...

→ where does Iran "fit" in...

Iran is a front in the geopolitical contest...



→ US shale oil is high-cost but flexible due two stage production creating incentives for volatility rentierism preserve option value, sustain rents, and delay hydrocarbon shit

<https://www.theglobalist.com/>

ten-inconvenient-truths-about-the-energy-implications-of-the-iran-crisis/

Hormuz shock: perceived impact matrix (short term)

Dimension	US	CN	EU
1. War-risk premia, freight, rerouting, working-capital stress	-	-	-
2. Naval underwriting, convoy logic, security burden	-	-	±
3. Currency/settlement contest: petrodollar vs RMB drift	+	±	-
4. Financial volatility rents, intermediation gains, inequality	+	-	-
5. Renewables, EVs, electrification, hydrocarbon substitution	±	+	±
6. China export redirection to Global South	-	+	+
7. Europe resilience/adaptation window	±	±	±
8. Long-run decarbonisation, lower hydrocarbon dependence	±	+	±

Green = net positive; red = net negative; grey = mixed/ambiguous.

Hormuz shock: perceived impact matrix (medium term)

Dimension	US	CN	EU
1. War-risk premia, freight, rerouting, working-capital stress	±	±	-
2. Naval underwriting, convoy logic, security burden	-	-	±
3. Currency/settlement contest: petrodollar vs RMB drift	+	+	-
4. Financial volatility rents, intermediation gains, inequality	+	-	-
5. Renewables, EVs, electrification, hydrocarbon substitution	+	+	+
6. China export redirection to Global South	-	+	±
7. Europe resilience/adaptation window	+	+	+
8. Long-run decarbonisation, lower hydrocarbon dependence	+	+	+

Green = net positive; red = net negative; grey = mixed/ambiguous.

→ energy transition creates a structural divergence in medium-term interests across blocs

Hormuz shock: perceived impact matrix (long term)

Dimension	US	CN	EU
1. War-risk premia, freight, rerouting, working-capital stress	+	±	±
2. Naval underwriting, convoy logic, security burden	±	±	-
3. Currency/settlement contest: petrodollar vs RMB drift	±	+	±
4. Financial volatility rents, intermediation gains, inequality	±	±	-
5. Renewables, EVs, electrification, hydrocarbon substitution	+	+	+
6. China export redirection to Global South	-	+	±
7. Europe resilience/adaptation window	±	±	+
8. Long-run decarbonisation, lower hydrocarbon dependence	+	+	+

Green = net positive; red = net negative; grey = mixed/ambiguous.

→ also very concrete implications for architecture of trade routes

**Control over the material world
spills into control over narrative
space.**

**What is the governance
structure over trade in services?**

The World is in uncharted territory

Who is in which digital trade club

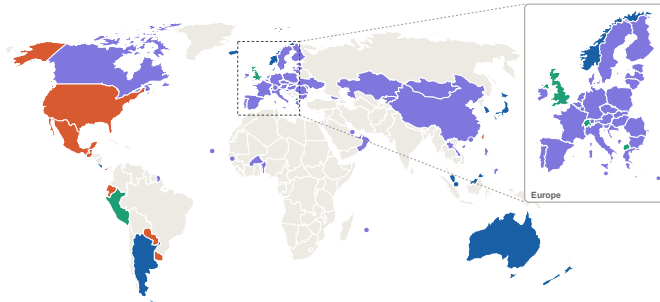
WTO members grouped by their presence across three plurilateral instruments on digital trade

■ 66 (ECA) + 23 (April) + 19 (May) ■ 66 (ECA) + 23 (April) only ■ 23 (April) + 19 (May) only ■ 66 only (ECA) ■ Not in digital club

ECA: Declaration on Interim Arrangements for the Agreement on Electronic Commerce — 66 members (WT/MIN(26)/W/26).

April stopgap: 23-member stopgap moratorium club, April 2026 (WT/GC/283).

May stopgap: 19-member stopgap moratorium pact, effective 8 May 2026 (WT/GC/286).



Notes: The European Union is an ECA participant in its own right; it is shown here via its 27 member states. Dots mark economies too small to read at map scale: Singapore, Bahrain, Mauritius, Cabo Verde, Gambia, Liechtenstein, Hong Kong S.A.R., Liechtenstein, Malta, Luxembourg and Cyprus. Sources: WT/MIN(26)/W/26; WT/GC/283; WT/GC/286.

From Fetzer et al (2026), Running Up That Hill: The WTO's Battle with Modern Industrial Policy.

Bergamo, March 2020

In crisis, societies do not process vectors of estimates.

They process images, stories and emotions.

Stories can discipline action. But: they can also become an attack surface to erode trust.

Stories can unfold incredibly huge damage in a service-sector context

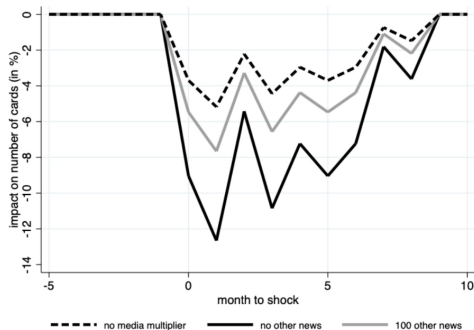


Media multipliers are large...

- Stories and their spread can have huge economic impacts.
- Narrative transmission is itself a strategic capability.
- This is why information space is a geopolitical front.

Besley, Fetzer and Mueller (2026) How large is the media multiplier?, ReStat.

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Media multipliers are large...

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Climate action implies the need for more varieties of service sector trade...



Global trading system for service trade...

- needs to evolve to facilitate rapid and large scale trade in ecosystem services
- Smart decarbonization along value chains
- Reducing carbon shadow of economic development
- Integrating negative emissions into CBAM (under way)
- Expanding carbon pricing instruments

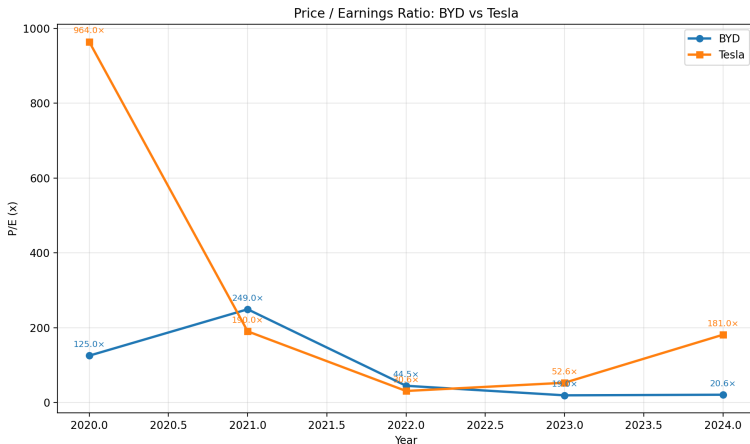
Attack on monetary sovereignty is technologically augmented...



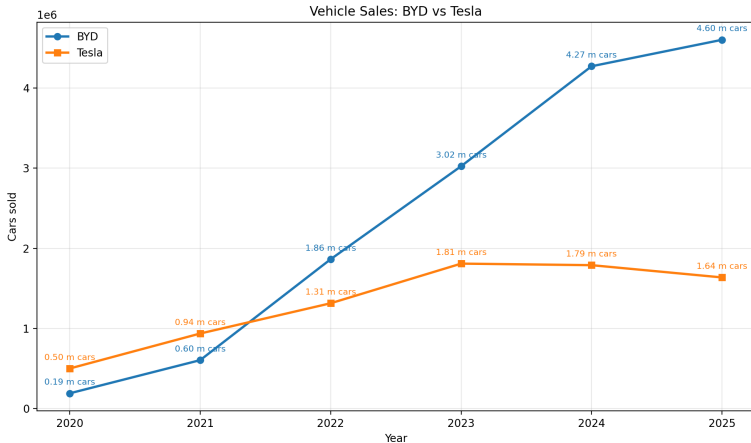
Changing demand for securities...

- Passive demand is being locked in through ever growing use of ETFs
- US Treasury demand from traditional sources, in particular, central banks is declining
- Stablecoins and programmable money are ideal for a world of digital services
- Digital money also ideal for a world with AI mediated decisions
- but it attacks conceptualizations for monetary sovereignty

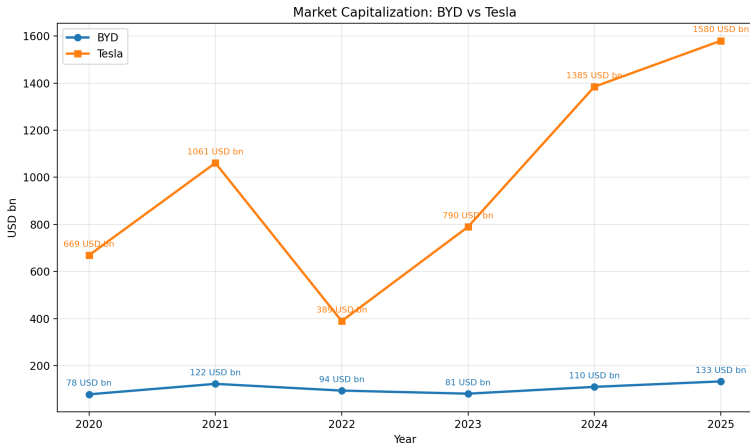
On US incentives to monetize assets...BYD versus Tesla



An example from finance: BYD versus Tesla



An example from finance: BYD versus Tesla



→ seems strange to me but in the end this is what a cult or a belief system over substance looks like

How did we get there?

In short...

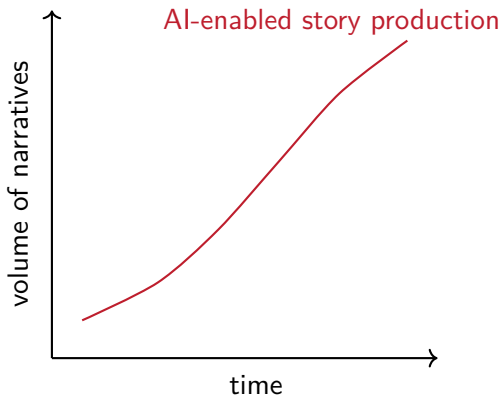
- ▶ its the internet and the growth of networked monopolies that steward and monetize attention markets
- ▶ in (social) networks, returns to effort become convex - meaning, small increases can produce ever larger increases in returns
- ▶ in such attention markets, competition degenerates into tournament with zero-sum incentives
- ▶ can create extreme concentration of attention

→ most attention or authority markets (social media, academia...) exhibit a convex *perceived* reward structure producing **zero-sum** contests

Enter AI: It lowers the cost of story production

- Retrieval becomes cheap.
- Writing, images and video become cheap.
- The marginal cost of flooding the zone falls toward zero.
- Stewardship becomes the bottleneck.

→ we need to ensure that amount of noise can be controlled, investment in filtering capabilities



How can we distinguish "good" stories... an example topology of causal claims

JOURNAL ARTICLE

Housing Insecurity and Homelessness: Evidence from the United Kingdom [Get access >](#)

Thiemo Fetzer , Srinjoy Sen , Pedro C L Souza 

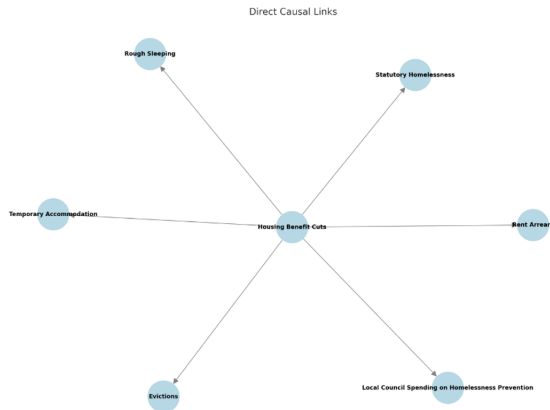
Journal of the European Economic Association, Volume 21, Issue 2, April 2023, Pages 526–559, <https://doi.org/10.1093/jea/jvac055>

Published: 21 November 2022 **Article history** ▾

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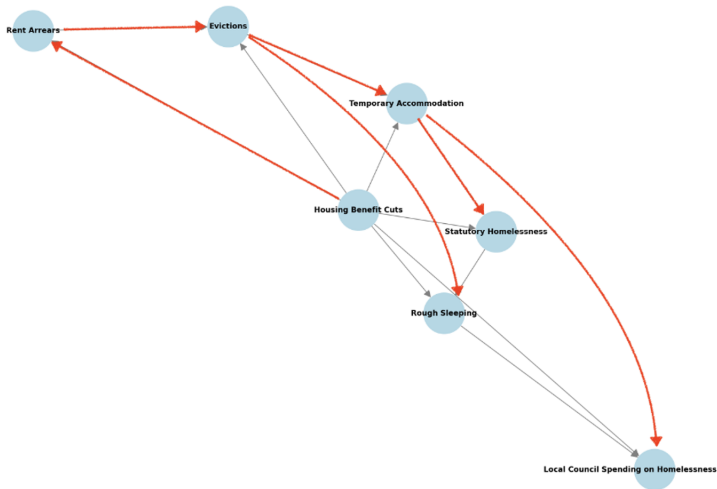
Abstract

Homelessness and precarious living conditions are on the rise across much of the Western world. This paper exploits quasi-exogenous variation in the affordability of rents due to a cut in rent subsidies for low-income households in the United Kingdom in April 2011. Using comprehensive district-level administrative data, we show that the affordability shock caused a significant increase in financial distress, evictions, property crimes, insecure temporary housing arrangements, statutory homelessness, and actual rough sleeping. The most notable rise in statutory homelessness is driven by families with children, lone parents, individuals with existing health conditions, and as a result of having been evicted. We estimate that the fiscal savings were low and shifted toward the local administration: Savings by the central government were partially offset by an increase in council spending to meet statutory obligations for homelessness.



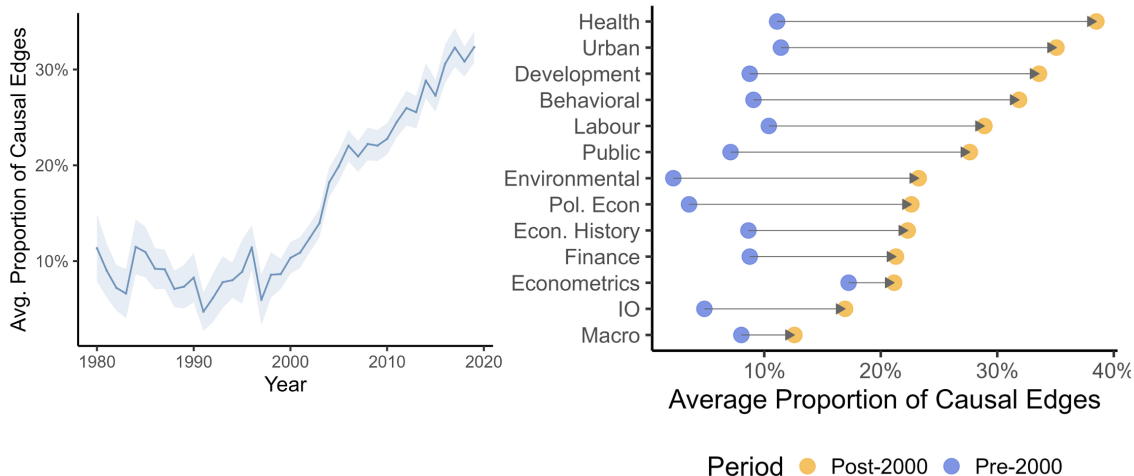
Example paper-level causal-claim graph representation.

What is “robust” empirical evidence?



Evidence-to-narrative consistency checking concept.

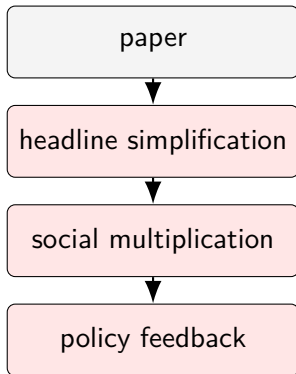
Evolution of causal claims



Causal-claims prevalence in CEPR and NBER working papers.

Noisy narrative transmission

- Media representation often removes the middle of the argument.
- Strong priors can then dismiss the claim without engaging its engineering.
- What enters politics is often a distorted shadow of the original evidence.



Stories and those producing them are strategic assets...

- In a service-heavy economy, stories travel like tradable goods.
 - Reputation, labels, narratives and expectations shape flows of money, travel and trust.
 - Control over narrative space becomes a source of geopolitical leverage.
 - Integrity of the narrative space is an important element to build trust.
- we all need to become validators now and this may well turn into what is left of the productive service economy post AI

Two digital systems, two failure modes

State-led authoritarian capitalism

- ▶ direct state steering
- ▶ integrated digital control
- ▶ narrative management through hierarchy

Private surveillance capitalism

- ▶ private platform intermediation
- ▶ extraction through data and attention
- ▶ narrative management through monetization

→ both may produce observationally equivalent outcomes

Europe's task is not to choose a default.

It is to rebuild capacity and chart a third way.

Partner with likeminded nations to solve worlds problems, not add fuel to fire.

Societies governed by statistics, not stories?

Statistics (normative ideal)

- Shared measurement backbone and explicit assumptions.
- Challengeable estimates, reproducible pipelines, auditable revisions.
- Policy constrained by measured regularities, not rhetorical salience.

“Ledger of reality”: a common empirical floor for collective decisions.

Stories (practical reality)

- Humans process villains, victims, heroes – not covariance matrices.
- Media and campaigns reward outliers and emotional curvature.
- In data-blind settings, narrative entrepreneurs fill the void.

Institutional task: evidence-constrained narratives, not narrative-free politics.

**Democracy will not be saved by
better stories alone.**

It will be saved by institutions that can see,
verify, and act before fear and fragmentation
do the governing.