AROUND THE WORLD IN 8 (or so) PAGES...

1st QUARTER 2019

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ABOUT OUR '8 PAGES' SERIES:

The Librarium Associates monthly 'Around The World In 8 Pages..' series is a quarterly publication created by our team focused on geopolitical and macro economic trends and developments around the World during the last 3 months. As long term thinkers we draw on the lessons of history as a guide to understanding the present and charting the probable paths ahead. There are no crystal balls but in the words of A.W. Pinero: "The future is only the past again, entered through another gate." It's our mission to glean valuable insights from history and apply them as a foundation for understanding the journey ahead.

We are constantly engaged in active horizon scanning while adhering to our belief that students of the lessons of history and permanent features such as geographic realities can provide superior insights.

From these broad scenarios we work to identify investable trends and specific opportunities. We find that such a broad approach provides an 'early alarm' system for risk management and an indicator of attractive price/value situations across asset classes.

The intention of our research and the basic premise of this publication is to present rational perspectives based upon a diligent analysis of historical data. Through organizing the data logically, information is created. Through understanding and developing perspectives on the information, knowledge is generated. With knowledge, one can then start to make informed decisions.

The most practical way to imagine the future is to question the expected, this is best done making use of what we call 'critical thinking' - Critical thinking is the careful, deliberate determination of whether one should accept, reject or suspend judgment about a claim and the degree of confidence with which one accepts or rejects it. Critical thinking employs not only logic but a broad intellectual criteria such as the one outlined above. Critical thinking requires extensive experience in identifying the extent of one's own ignorance in a wide variety of subjects which is often captured in the following sentence: I thought I knew, but I merely believed.

As J.F. Kennedy put it: "Belief in myths allows the comfort of opinion without the discomfort of thought." Our aim is always to avoid this trap of the mind, when one attempts to look into the future one is better of exhibiting a more intellectually humble approach and challenge one's beliefs and opinions by asking the question. What if we took the opposite view? This leads to a more balanced set of insights in our view.

The insights and opinions offered in this document are meant as a summary of events and our views – not a conclusive or exhaustive overview or for that matter a specific investment recommendation.

We hope it will offer some food for thought and that it can form the basis of conversations between our clients, interested parties and ourselves.

Sincerely yours,

Mr. S.H. Sorensen Senior Associate

PRE-DEPARTURE BRIEFING:

Napoleon stated that; "The power of all nations are inherent in their geography." Combined with slow moving and relatively 'solid' data such as demographic trends, geography forms the foundation for our approach to understanding the world we inhabit. Then you can apply a lens of historical context and an understanding of human and group psychology. With these tools one can distil broad insights on national and global trends and the probable paths forward.

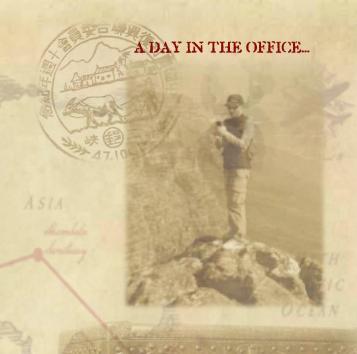
In our opinion too much is made of traditional data, GDP % growth per quarter etc. are simply the short term effects of these underlying forces and should not be considered as the foundation for understanding but merely as a limited and 'noisy' symptom. We look for long-term patterns and potential breaks from the expected linear paths of most observers. As Niccolò Machiavelli puts it in 'The Prince'; "One change always leaves the toothing for another."

On our whirlwind tour Around the World in 8 Pages we will not offer traditional broad bland descriptions of quarter over quarter economic data but we will offer variant perceptions on the World's key regions as well as individual nations. We will delve into specific trends or events that caught our eye as significant during the last quarter.

As always we hope to inspire our readers to explore the World further by themselves, to ask questions and let people find the answers, to awake a sense of curiosity and a quest for further understanding. We welcome your observations and feedback and hope to meet up with you for a cup of coffee or a glass of wine in the future and mull it all over together. It has been our experience that real learning resides at the intersection of differing informed opinions expressed respectfully between learners.

Let's begin the voyage together...

"Not all who wander are lost." - Tolkien



The World is no different from any other object in that we can make more sense of it by viewing it from different angles. In our quest for insights we cover global macro economic trends and geopolitical events seeking variant perceptions in order to discern future paths and probabilities of likely outcomes.

-Mr. Sune Hojgaard Sorensen Senior Associate Librarium Associates Ltd. SOAR WITH VELINA TCHAKAROVA HIGH ABOVE THE EURASIAN HEARTLAND FOR A BIRDS-EYE VIEW OF THE GLOBAL LANDSCAPE OF A DAWNING GEOPOLITICAL ORDER. BE WARNED THERE MAY BE MYTHICAL BEASTS & HEAVY DOSES OF REALPOLITIK HANDED OUT ALONG THE WAY.

On a less dramatic note please understand that the views and opinions expressed in this piece are those of the author and do not necessarily reflect the official policy or position of her institute AIES.

The following overview is an attempt to outline the three most systemic developments for 2019 as well as to elaborate on possible implications for global affairs, mostly by offering a bird's-eye view on the geopolitical forest while deliberately ignoring the trees.

This overview is built on three premises: 1) Realpolitik (no eternal friends and enemies, solely eternal interests) is the main driver of interactions between competitors and allies in international relations; 2) nature abhors vacuums and thus each geopolitical vacuum is immediately being filled by competitors; 3) all processes are cyclical with respectively a phase of rise and fall. Against this background, it is to be expected that the Global System will be facing a general process of decline due to a global economic slowdown, stagnating trade and deteriorating globalization, but also because of worsening political and socio-economic indicators in general. At the top of the iceberg, I identify three systemic issues with the greatest potential for disruptive impact and unintended consequences:

- A falling eagle versus a rising dragon A war of a thousand battles.
- It's Helsinki 2.0 order, stupid!
- The Dragonbear is here to stay.

It's the framework which changes with each new development and not just the picture within the frame...

IT WILL GET MUCH WORSE BEFORE IT GETS BETTER...

The declining eagle versus the rising dragon: A war of a thousand battles...

Currently, the Global System is approaching a new bipolar moment as there are only two imaginable poles – the USA and China. The former has unilaterally been shaping the global order for the last fifteen years and still counts as the only state actor with global power projection capabilities to shape international supply chains and secure trade routes, which are still overwhelmingly maritime. Given the impressive economic and trade growth trajectories of the latter, there are indeed certain expectations about its possible rise on the global arena, however it remains unknown where exactly this journey leads to. Indeed, there are first steps towards a comprehensive geo-strategy by China through its ambitious Belt and Road Initiative stretching to all continents. Even though the Silk Roads have been known since ancient times, it should be stressed that China is slowly but surely becoming a European power, and with a European shift towards Asia, this process is unleashing tectonic structural movements in the global order.

Moreover, a second layer of the Global System consists of regional actors and free riders with limited power projection capabilities that strongly propagate multilateralism as the most desired framework for international relations as they seek to capitalize on the already established global order without significantly contributing to it. Among the most prominent examples are Russia (with global nuclear power projection and significant defence capabilities, however possessing a limited economic and trade profile), India, Japan, Canada, the big EU member states such as UK, France and Germany et al, just to name a few. Looking back to the scale of the Global System, the most powerful militaries in 2019 belong again to the main competitors USA, Russia and China. Considering the various dynamic constellations at the regional level all over the globe, the main free riders are already engaged either with the USA or China to a great extent. In this regard, the new realities reflect old equilibrium in terms of geopolitics as well as an emerging systemic bipolarity of the new global order, which is still widely being overlooked, whereas the key foreign policy agenda is increasingly shaped by the choice between these two players.

Logically, further large investments are expected in key sectors allowing the rapid growth of at least regionally dominant centres, in which defence, space technologies, artificial intelligence and cyber security will be the most advanced because each significant breakthrough in these areas might bring about effects of higher order that are desired and required in terms of global competitiveness. Moreover, a differentiation between economic and trade indicators, on the one side, and security and defence, on the other side, has meanwhile become irrelevant due to the unprecedented interconnectedness of the man-made systems of the globalized economy, finance, monetary affairs (currencies), trade and energy through the constant interactions between their components. This explains why the US-China issue isn't just a trade war but a comprehensive systemic rivalry encompassing all key elements of the above-mentioned globalized networks. Thus, the big question in this regard is: Will it be a full-fledged systemic rivalry between two antagonized competitors, or will they somehow manage to establish a peaceful co-existence of two parallel systems along technological progress and breakthroughs amid the Fourth Industrial Revolution and the assured mutual destruction of deterring nuclear weapons?

The answer to this question requires a closer look at the current situation. The whole saga surrounding the ongoing US-China talks is quite telling – constructive talks follow another set of constructive talks each month and the next session of productive meetings takes place immediately after the previous ones with constantly rescheduled timelines. China's Commerce Minister described the negotiations with Washington as "very difficult and very hard." He also stressed that there are "significant differences between the two countries' systems, culture and development stages."

Ultimately, what is being described as a trade dispute appears to become a full-fledged non-military war of a thousand battles with an open ending as the competition between the two countries has a systemic nature. It encompasses namely all significant fields of activity from trade and economy to diplomacy and international/regional organisations to currencies and finance. Moreover, it contains an escalation potential in the future due to the competition in sensitive areas such as 5G networks, space, cyber and defence capabilities. In this context, the North Atlantic Treaty Organisation (NATO) shifted its attention from Russia, which had predominantly preoccupied its agenda for the last decades, to the potential security challenges and threats from China – state owned communication networks, possible expansion towards the Arctic and South China Sea, military build-up and advancements in the field of sensitive defence technologies.

Against this background, there are two significant developments resulting from the current polarization of the Global System – the Helsinki 2.0 launched by the USA and Russia in 2018 (at the level of Trump-Putin bilateral talks) and the Dragonbear (the unprecedented bilateral axis of convenience between China and Russia (at the level of Putin-Xi Jinping bilateral talks).

It's the Helsinki 2.0 order, stupid!

HELSINGFORS

The well-known Helsinki global order, which was established on the 10 principles agreed upon between the West and the Soviet Union in the Final Act of 1975, is becoming obsolete now. Back in 1975, the West and the Soviet Union bloc met in Helsinki to negotiate and sign a final act with ten principles that have been guiding their relations during and after the Cold War until now, among which the principle of sovereign equality, the refraining from the threat or use of force, the inviolability of frontiers, the territorial integrity of states, and the non-intervention in internal affairs were the most prominent. Indeed, these principles were constantly affected by the actions of single state actors or organisations over the last decades, and yet they built a solid foundation for their behaviour in a bipolar and later on unipolar global order. Even though, the Helsinki Accords are not binding, they have been accepted as common 'rules of the game', whereby both systemic rivals were eager to abide by them as they built the ground for reducing tensions during the Cold War and promoted cooperation between competitors by demanding compliance with obligations under international law.

The beginning of Helsinki 2.0 was symbolically marked by the first official bilateral summit between the US President Trump and Russian President Putin in July 2018 in Helsinki, Finland, whereas no agreed statement was published, nor any practical agreement between the two counterparts was reached. Trump and Putin met five times altogether and each time there was a lack of transparency on what was exactly discussed or agreed on between them. It created the impression that negotiations, agreements and talks took place behind closed doors in a secretive way without significant information being made public. Furthermore, these bilateral meetings took place in the shadow of Russian collision accusations and under the toughest US sanctions ever placed on the country and its individuals, whereas Russian oligarchs were also directly affected this time.

In light of the deteriorating bilateral relations between the two most significant nuclear powers, the erosion of the Helsinki global order is obvious due to the new realities in global affairs. The message is that key international agreements could be re-negotiated at any time or even cancelled under President Trump's decision. The most prominent case is in the field of an arms control regime. As former Prime Minister Manmohan Singh pointed out, the old arms control agreements are already being consigned to history. Many countries are meanwhile modernising their nuclear arsenals with tactical or low yield weapons, which increases the likelihood of their use. The two dominant nuclear powers – the USA and Russia no longer act in line with the Helsinki Accords and do not share the common interest in abiding by these rules.

Furthermore, Helsinki 2.0 points clearly to the trend of bilateralization of global affairs, as there is no longer a sole guarantor of the global order and its international rules and norms. In this context, Trump has been preoccupied with setting his own foreign policy agenda, moving away from international law obligations or alliance commitments. The US withdrawal from key deals or agreements sealed in fact the emergence of the Helsinki 2.0 global order – e.g. the Iran Deal, the Transpacific Partnership, the Transatlantic Trade and Investment Partnership, the Paris Agreement, Intermediate-Range Nuclear Forces Treaty, and is likely to be followed by a withdrawal from the New Start with Russia, which might unleash a new (nuclear) arms race. Trump's attitude towards organisations such as the World Trade Organization (WTO), the European Union (EU) and even NATO contributes to the further erosion of the settled rules and principles of global affairs due to the increasing lack of trust and commitment towards such institutional bodies.

To sum it up, Helsinki 2.0 reflects strong national agendas, realpolitik, the decline of international and regional organisations and their norms, whereas other countries seek to copy Trump's bilateralization of international relations (e.g. Israel, Brazil etc.). Thus, it is to be expected that the whole "rules of the game" as established during the Cold War and the unipolar moment of US hegemony will be re-reshuffled with unimagined consequences amid Global System transformation. Even though the main free riders and even a rising China still stress the importance of multilateral frameworks and established regional and international organisations, the emerging systemic rivalry between the USA and China as well as the deteriorating relations between the USA and Russia already reflect a growing great powers competition and the flux of global affairs, in which realpolitik behaviour and ad hoc alignments would increasingly occur consequently.

The Dragonbear is here to stay...

The third systemic development in global affairs that deserves special attention is the Dragonbear as the alliance or axis of convenience between China and Russia that has been predominantly overlooked or considered being unrealistic in the last decade. The expert community remains divided on this issue, whereas a majority is still convinced that the relationship is only of a temporary character due to its inherent conflict of interests and thus it expects that the cooperation between Moscow and Beijing would remain limited in scope and time. A much smaller group claims that the Dragonbear would continue to challenge the West as an unprecedented alliance aimed at creating parallel to the US-led institutions and partnerships in all significant spheres of global affairs. So far, it seems that the Dragonbear's geopolitical task is achieving complementarity through coordination of objectives and actions at the highest political level based on the principle of 'Not always with each other, but never against each other'. Nonetheless, there are certain developments in the regions of overlapping geopolitical and geo-economic interests such as Central Asia, the Middle East, Africa and Latin America, which point to possible tensions in the future (e.g. Chinese loans and investments in Russian spheres of influence in Central Asia or former Soviet space, and now the so called Chinese 16+1 initiative with countries in Central and Eastern Europe).

From the US perspective, facing an alliance of such scale as the Dragonbear along with the competition over new partners and allies is significant for its future positioning in the global order. Indeed, various strategic documents published in 2019 have already identified the challenge of great power competition and eventually concluded that the USA would be dealing with the Dragonbear amid Global System transformation (e.g. Worldwide Threat Assessment of the US Intelligence Community, The Assessment and Recommendations of the National Defence Strategy Commission, National Security Strategy of the United States of America etc.). Furthermore, there is a risk that key allies of the US are still not on the same page regarding their view of the Dragonbear, particularly in Europe due to their own geopolitical calculations and interests, but also mostly due to their free riding position in the current Global System, which allows balancing between great powers (e.g. UK/Germany on the Huawei 5G Network; Italy and Portugal on the Belt and Road Initiative; the CEE countries on the 16+1 Initiative; Germany on Russia's Nord Stream 2; Italy, Greece on the EU sanctions against Russia following the annexation of Crimea etc.). Looking closer at the realities at the system level, it is rather chimeric to expect another significant player being capable of shaping the global order in the near future, thus the combined efforts of the two disruptive actors China and Russia to create alternative systems as opposed to US-led structures and processes along globalised economy, finance, monetary affairs, energy and trade are very much worth keeping an eye on this great disruption potential.

So long as the Dragonbear shares the common interest in opposing the US in every possible field, the systemic coordination of actions will continue despite emerging bottom-up tensions in areas of intersection of national interests. The main common denominator of the Dragonbear isn't just the goal of opposing the USA, but also establishing and consolidating a Eurasian land connectivity as a reaction to the American maritime dominance in the Indo-Pacific realm and thus making sure that there is a certain independence from maritime chains of supply in case of future blockades. This is very much oriented against US and European interests as Moscow and Beijing share a common objective of excluding third actors' involvement in Eurasia. Thus, a highest-ranking (top-down) coordination between President Putin and his closest circle, on the one side, and President Xi Jinping and his closest supporters, on the other side, makes sure that the Dragonbear gets consolidated despite existent bottom-up tensions on the ground (e.g. in Kazakhstan there are already fears of an overwhelming Chinese presence in all spheres through loans, investments and business activities, whereas the political elite is still very much influenced by Russia). One of the most obvious examples is that both countries still struggle to diversify their economic cooperation portfolio by identifying potential areas and directly arranging deals at the top level, however neither the trade volume nor the economic ties have extensively been expanded despite these efforts.

THE ENEMY OF MY ENEMY IS MY FRIEND...

A dragon and a bear walks along the Silk Road...

Potential frictions between Russia and China lie in the geographic prioritization and the overlapping geopolitical interests. Russia is a regional power possessing nuclear weapons with global reach and with vertical expansion of geopolitical and geo-economic interests from the Arctic and the Baltics through the Eurasian landmass and its near abroad in Eastern Europe to the Caspian, Black and Mediterranean Sea as well as to the Balkans and the MENA region. However, there is a well-established Russian fear of Chinese penetration particularly in Central Asia and the Far East as well as other traditional spheres of influence such as the Balkans, Eastern Europe and the rest of the former Soviet space.

Furthermore, Africa and to some extent Latin America may become a playground of conflictual tactics (e.g. Venezuela, Sudan etc.). Moreover, their interests in the energy sector do not overlap since Russia is one of the major oil suppliers while China tops the list of the countries with greatest oil imports. A sort of new energy interdependence as the one between Russia and Europe could emerge in the short and mid-term as Russia is increasingly taking the role of supplying China with oil and natural gas through various pipelines and thus diversifying its energy portfolio away from Europe.

Also, new connectivity is being explored and expanded such as in the Arctic, Central Asia and beyond to balance the US-dominated global supply chains. However, the current Chinese grand projects constitute a horizontal expansion from China to Europe and Africa through a network of various connectivity and infrastructure tools (transport routes, pipelines, trade roads, loans programs etc.) and are meanwhile institutionally backed by a set of China-led organisations such as the Asian Infrastructure Investment Bank, the Eurasian Investment Bank, the Shanghai Cooperation Organization etc.

From Beijing's perspective, the worst-case scenario would be a situation in which Russia starts adapting to the rise of China by balancing through a potential ad hoc partnership with the USA just like China did in the 1970s during the Cold War. Obviously, Moscow would not tolerate an emergence of Pax Sinica in continental Eurasia and the neighbouring areas that have been Russian strongholds for centuries.

POTENTIAL FOR CONFLICT...

The European playground...

It remains questionable how Europe will adjust to the realities of a great power competition between the USA, China, and Russia already positioning itself in between. European political elites seem to be too preoccupied with self-preserving tactical issues due to upcoming elections for the European Parliament and the selection of a new European Commission as well as the chaotic process of Brexit that has been delayed once again until October 31st.

Currently, three significant layers of European politics are noteworthy as making the political process too complicated: 1) the institutionalists in Europe promote top-down EU centralization towards further consolidation and supranationalism; 2) the nationalists and populists at the bottom of the political systems are launching anti-EU campaigns and seek to unite efforts to disrupt the EU from within by gaining a majority in key Member States as well as in the European Parliament; 3) the member states are in between and their governments are muddling through various interconnected crises such as the Migration crisis and its political repercussions, Brexit, recession fears, socio-economic pressure, etc. Thus, it is to be expected that the EU will face fragmentation processes with a deepening institutional integration centred around the German-French political axis, which will increase the pressure between the centre and the peripheries in Europe.

Eventually, Europe woke up to the realities of an emerging bipolar structure of the Global System with the USA and China being the antipodes in the new scenario. The EU even declared China as a 'systemic rival', however Brussels and its member states will simultaneously have to deal with a much more assertive China, now that it has become a European power, as well as much more assertive US President Trump, who will address the trade imbalances as well as their free riding position due to the symbiosis of US defence spending and European social programs over the last decades.

"...THE WEST, RATHER THAN GO ON TO CONQUER THE REST OF THE WORLD, IS NOW BEGINNING TO LOSE ITSELF IN WHAT REINHOLD NIEBUHR CALLED "A VAST WEB OF HISTORY." - R.D. Kaplan

Conclusions...

The global power competition is clearly an outcome of the emerging Global System transformation causing major reshuffles of the globalized networks and structures of finance and monetary systems, the global trade and economy as well as energy, agriculture, water and food systems amid the Fourth Industrial Revolution. Against this background, the process of polarization and partition is imminent and will be further deepened by the emerging systemic rivalry between China and US, while all significant regional players and free riders will have to take an 'either/or' decision and position themselves in between at some point.

The worst possible outcome would be a systemic competition between a falling eagle and a rising dragon that spirals out of control and leads to fundamental Global System change (systemic financial crash much worse than the Great Financial Crisis in 2007, a disruption of global supply chains, regional and peripheral military tensions and proxy wars etc.). The best-case scenario would be a sort of global coexistence of US-led and China-led blocs of alliances, partnerships and connectivity along regional networks of trade, finance, currencies, economy, telecommunications, payment systems, parallel institutions and organizations, just to name a few.

To conclude, the three systemic developments I have outlined will determine which player will succeed in being more capable of shaping the global order for their own benefit in the future.

TREAD CAREFULLY INTO THE UNKNOWN...