

Global Risk Trends & Analysis

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January 2019

Caution lights flash amid geopolitical turbulence and global upheaval



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As we transition into the new year, and near the closing of the second decade of this young century, we see the end of the relatively peaceful global economic, diplomatic, and military era of the past twenty-five years.

In 2019, markets confront the stark reality of a new international framework shaped more by increasingly diffused 21st century geopolitical power than by the multilateral pre-eminence of the rules-based system devised and led by the United States.

In the 1990s, the World Trade Organization (WTO) succeeded the General Agreement on Tariffs and Trade (GATT); the United States, Canada and Mexico newly-bound their economies through the NAFTA trade agreement; and the Eurozone was established to further cement the experiment of European political solidarity, at the price of sovereignty willingly surrendered.

Parallel to these new directions in global trade and finance, U.S. coercive diplomacy became central to the resolution of most regional and international crises, with largely unencumbered American military operations in Iraq, Somalia, Bosnia, Haiti, Afghanistan, and Kosovo.

Such freedom of operation, especially in Europe and Asia, would have been inconceivable during the Cold War, when the United States and the Soviet Union were locked in regional proxy conflicts in place of potential mutual nuclear annihilation. Yet the post-Cold War era, itself ill-defined as it was named not for what it was but for what it no longer was, has been gradually concluding for the past decade, before our unbelieving eyes.

Today, the astonishing rise of China to the rank of global economic and financial power inconceivable thirty years ago is coupled with the recognition that a second geopolitical Cold War, this one between Washington and Beijing, may be dawning. As a result, Western members of the rules-based international order are reconsidering most of its component agreements, treaties, and objectives along the Pacific Rim region, in south Asia and on a worldwide scale.

Similarly, the return of belligerent Russian adventurism, especially the pinprick war in Ukraine and the occasional shutdown of energy supplies to Europe, after a fifteen-year period of international insignificance, compels new and imaginative strategic thinking in Europe, the Middle East, and throughout Eurasia.

Rogue police states in Iran and North Korea threaten their respective immediate regions directly, and — through their long-standing cooperation in trade, military hardware, and nuclear technology — distant powers and targets as well.

The pan-European experiment, accelerated by the creation of a single currency twenty years ago, is unraveling. This trend is buffeted by marginalized and alienated working- and middle-class voters, who demand democratic sovereign recognition as citizens of nation-states, rather than as self-perceived subjects of a swollen, unaccountable, and expensive Brussels bureaucracy.

Navigating a perilous era in global politics

A clear-eyed and unadorned assessment of the strategic direction of major powers, whose ambitions are upending the norms-based framework that has guided international trade, finance, and diplomacy largely unquestioned for decades, is essential.

Chinese Expansion

Chinese official publications openly declare that Beijing aims to achieve global stature as an economic, technological, and military power, essentially matching or exceeding American pre-eminence in the Indo-Pacific region specifically, and worldwide where possible, in the next thirty years—when China will celebrate its centennial as a Communist Party power in 2049. The only way to accomplish these herculean objectives is to sustain the tremendous economic growth of the past several decades, especially the turbo-growth decade after China joined the WTO in 2001.

Current U.S.-China trade disputes reflect the broader international consternation with which how China has been viewed as deceitfully achieving its status among the top rank of economic powers. Yet there is no grand unified U.S. and Western strategy for competing with China over an extended period since much of the focus has been on persuading China to follow WTO global trading rules and cushioning the global economy from possible Chinese debt bubble collapses.

Washington has been moving closer in recent years, despite the acrid domestic political environment, towards a bipartisan consensus that China can no longer be permitted to advance its mercantilist growth at the expense not only of the U.S. economy, but that of our leading allies and trading partners. Even if the Trump Administration were to craft a strategy that ensures American international economic and political leadership rather than Chinese in 2049, it has no more than six years at most to implement it. Future U.S. administrations will have greater say on the pace of China's ascendance as that centennial milestone nears.

Another question concerns Beijing's discarding of economic reforms and social liberalization, especially after the 2012 ascendance of President Xi Jinping. His forceful commitment to upholding absolute political control by the Communist Party over the country's economy and society will challenge the country's ability to sustain its economic growth trajectory. On the assumption that GDP growth rates exceeding 5% annually can be upheld, China's plans for geopolitical and military power projection will transform the framework for Pacific Rim and international trade and cooperation.

Under President Xi, China has embarked on a three-tiered strategy to re-attain for China its historic position, dating back centuries and millennia, as Asia's "Middle Kingdom," in a special place between the heavens and the Earth—where Chinese society ruled over perceived inferior cultures and people along its periphery.

Phenomenal growth as the world's factory has financed the prodigious expansion of China's military, in terms of technological capability, geopolitical power projection, and strategic ambitions in the decades ahead—about which Beijing has been not at all reticent. According to the Heritage Foundation, in 2015 dollars, China's military expenditures increased 650% between 1992-2015, during which the U.S. defense budget grew 16%. The Chinese military first seeks to achieve "anti-access, area-denial" capability in the disputed waters of the South China Sea and off China's Pacific coastline, enabling military superiority over American forces stationed in Japan, South Korea, Guam, and Hawaii.

A historic land power obsessed with protecting its imperial territories from marauding tribes and armies, China now plans to deploy a world-class navy. Beijing not only intends to engage the U.S. military in the Pacific Ocean, but also to project Chinese power in the Indian Ocean, to protect Chinese interests in securing access to Africa's natural resources, to South Asia ports and facilities east and west of its great rival India, to energy supplies in the Middle East and to consumer and financial markets across Europe.

Beijing's longer-term strategy is to push back U.S. naval and air forces more than 1,800 from its Pacific coastline. If successful, this strategy would result in the U.S. effectively ceding military dominance of the world's most vital commercial waters to China, through which 30% of global commerce is shipped. This could lead to the linkage of Japanese, South Korean, Taiwanese, and southeast Asian ports to the global free-market trading system only with the permission of China's wealthy Communist authoritarian government.

Critical to the success of this economic and military power strategy is the Belt Road Initiative (BRI), the world's most ambitious, large-scale economic development and infrastructure program. China is offering state-backed credit to smaller and poorer countries in Central Asia, the south Pacific, and Oceania countries, to south Asian and African countries along and within the Indian Ocean region, to numerous European countries, and increasingly to Latin American and Caribbean nations. The funds would be used to build surface transportation networks—highways, tunnels, bridges, and railways—connecting Chinese ports and markets across the Eurasian continent to European markets. They would also be used to build or upgrade ports and maritime facilities to advance China's commercial shipping and naval expansion interests in the Indian Ocean and the Mediterranean Sea.

In an early October address, Vice President Mike Pence described the initiative bluntly: "China uses so-called 'debt diplomacy' to expand its influence...the terms of those loans are opaque at best, and the benefits flow overwhelmingly to Beijing." Sri Lanka, a small yet strategically located island nation along vital Indian Ocean shipping lanes, was forced to surrender sovereign port territory to Chinese entities when they could no longer afford to repay onerous loans. Pakistan, Myanmar, and the Maldives, all in south Asia, as well as Zambia in Africa, may be the next debt trap victims.

European Unrest

In Europe, BRI lendees such as Greece and Hungary repay the favor by weakening the European Union's ability to speak with a unified voice in condemning Chinese trade or human rights violations. These diplomatic ruptures indicate a broader fraying of the solidarity concept that bound together the European Union members over previous decades.

Beyond the signal events surrounding Brexit, back to the shocking June 2016 referendum to the constant political battering within the United Kingdom over how to properly unwind the country from the bloc, the European experiment will face powerful populist and nationalist headwinds for the foreseeable future.

Much as the Republican and Democratic parties failed to understand and respond to the continued economic, social, and cultural hollowing of the American heartland while coastal elites recovered rapidly from the 2008 financial crisis, so too have European political leaders misread the profound angst of their citizens.

After the United Kingdom, political unrest in Italy, France, Denmark, and even Germany—with unprecedented support for a nativist party—raises doubts about the ability of the Brussels technocracy to withstand democratic demands for control over national sovereignty and policy decisions from overtaxed national citizens.

Compounding the prosperity deficit afflicting many segments of European society are the deep imbalances in economic and social policies continent-wide. Fiscally-disciplined economies dominate northern Europe, even as profligate southern European countries exploited low interest credit to purchase massive exports from Germany, until they could no longer pay their bills.

Post-2008 financial crisis, youth employment has skyrocketed in southern Europe—20% in France, over 30% in Italy and Spain, and over 40% in Greece—leading to brain drains and a longer-term despair about the ability of these economies to ever generate a hopeful future for their youngest citizens.

More traditional societies in eastern Europe refuse to absorb any more migrants from southwest Asia and sub-Saharan Africa, even as more cosmopolitan societies in western Europe and Scandinavia scold them on obligatory European Union values of tolerance.

In the next two decades ahead, many African countries will see population increases far exceeding their surprisingly robust economic growth rates. Northern Africa faces increased terrorist activities in the Sahara region, amid new human trafficking pipelines after the NATO-led overthrow of the Libyan government. Corruption still strangles many economies continent-wide, even as more than two dozen African nations enjoy sustained GDP growth rates above 4%

Along the southern Mediterranean coastline, EU members Spain, Italy, Malta, and Greece will need to prepare for demographic cascades of potentially millions of migrants streaming across their borders, as mobile technology brings visions of European economic opportunity to hard-working, entrepreneurial but otherwise despondent African populations.

Russian Power Play

On Europe's strategic insecurity front, EU members Poland and its three Baltic neighbors warn Brussels of Russian military designs to disrupt political systems within the bloc and its counterpart NATO alliance, especially challenging the concept of stable democratic systems.

At the same time, Berlin is doubling its energy dependence on Russian fossil fuels while urging the U.S. to continue stationing 35,000 troops to defend Germany and Europe at large from the Russian conventional and nuclear threats. In November 2018, the White House did not exclude possible economic sanctions against leading multinational firms constricting the Russia-Germany gas pipeline, including Russia's Gazprom, Germany's Uniper and Wintershall, Anglo-Dutch group Royal Dutch Shell, France's Engie, and Austria's OMV,

Much as China's Xi Jinping has manipulated Communist Party governance from consensus rule among party bosses into his sole, near-absolute executive authority, so has Russia's Vladimir Putin distorted the Russian political process to assure himself near-absolute, perennially-re-elected executive power in Moscow.

Sitting atop a corrupt and highly unproductive economy, based almost exclusively on fossil fuels, timber, minerals, and other natural resource exports, Putin is making raw Russian power felt in Eurasia and in the United States with his strongest—and perhaps only—hand: military adventurism.

Recall that Putin was straightforward about what he considers the greatest geopolitical catastrophe of the 20th century: the collapse of the Soviet Union and Russia's attendant loss of global power. He is smart enough to understand that the Soviet empire will not be rebuilt, but cunning enough to use his military sparingly and short of any significant red lines to undermine the confidence of European and Middle East countries in Washington's willingness and determination to support them against powerful enemy forces.

Well before the pinprick attacks on eastern Ukraine, and the annexation of the strategically critical Crimea peninsula, Putin made his first such moves in 2008 against obscure territories in the Caucasus nation of Georgia, at the crossroads of the Middle East, Central Asia, and the Black Sea region. There was no serious response then from the West and those areas remain under Russian occupation ten years later.

Moscow seeks to further undermine the sanctity of European borders in Poland, Estonia, Latvia, and Lithuania, and to deploy digital warfare to manipulate media, foment popular demonstrations and protests, and undermine confidence in the integrity of Western democratic electoral politics.

In the Middle East, Russia has partnered with Saudi Arabia to effectively shape the OPEC oil production and pricing agendas. It has also joined with Saudi Arabia's blood enemy Iran to control the future of Syria, a critical land bridge between the Arabian Peninsula, Turkey, and the Mediterranean Sea. Syria's millions of displaced persons were weaponized in 2015 by Moscow and Teheran to help roil and destabilize European and Middle Eastern societies with massive refugee and migrant inflows. Iran has provided the land force to Russia's air force to ensure minimal U.S. influence in shaping the future of Syria and peace in the Middle East. After President Trump's stunningly abrupt decision to withdraw all U.S. forces from northeast Syria, Iran will eventually exert far greater influence in connecting its geopolitical reach across northern Iraq and through Syria to the Mediterranean Sea, depending upon NATO ally Turkey's ability and willingness to militarily prevent such an outcome.

With Russia having secured 49-year leases on upgraded naval and air bases on Syria's Mediterranean coast, Moscow has the ability to disrupt vital commercial shipping and energy supply lanes to and from Europe via the Suez Canal in Egypt, in the Bosphorus Straits in Turkey, and more widely across the Black Sea, which can more easily be controlled from Russian naval bases in Crimea just north of significant undeveloped fossil fuel reserves recently discovered in the regional seabed—now under Russian control.

Russian energy power will continue to expand in 2019 as the colossal Siberia-China pipeline is scheduled to be completed in October, carrying Russian natural gas across 2,500 miles to launch a 30-year, \$400 billion energy pact with Beijing.

At the strategic security level, Russia has been violating the landmark Intermediate Nuclear Forces agreement signed by Presidents Ronald Reagan and Mikhail Gorbachev in 1987, to more credibly threaten Europe in the event of a kinetic conflict. President Putin has stationed the missiles, along with devastatingly effective anti-aircraft batteries, in Russian territory surrounded by NATO member countries.

If he so chose, Putin could declare one third of Poland's air space, and nearly all the airspace of the three smaller Baltic countries, as a Russian-controlled no-fly-zone. Without firing a single bullet, he would instantly put the credibility of the U.S. security umbrella over every NATO country in question, fomenting an alliance-wide existential crisis.

The White House would be compelled to debate the risk the U.S. is willing to take to uphold the security of countries most Americans have never heard of and would likely have little interest defending, at the cost of more American blood and treasure than has already been expended—by a dwindling segment of the U.S. population—for unwinnable wars in Afghanistan and Iraq since 2001.

Despite the diplomatic pressure to uphold U.S. credibility, the domestic political debate in the United States could be highly chaotic, potentially undermining long-term U.S. allied and global leadership.

North Korea and Iran Conundrum

The geopolitical challenges posed by North Korea and Iran, though 4,000 miles apart, are in many ways similar. North Korea's dictatorial leader Kim Jong Un learned well the mistakes of Saddam Hussein and Muammar al-Qadhafi, who delivered their weapons of mass destruction under U.S. and international pressure, only to be executed at the hands of rebellious subjects after their governments collapsed. Kim will take every measure to avoid a similar fate at the hands of his subjects, and it is unimaginable that he will ever willingly surrender all the nuclear weapons he has been able to build, even as he has regularly starved his nation into submission.

President Trump's denuclearization strategy does not seem to have an achievable outcome, yet in many ways northeast Asia is less unstable than it has been in years. The high-stakes direct dialogue between the U.S. and North Korea has allowed regional leaders to exhale, as military conflict on the Korean peninsula would severely disrupt commerce in northeast Asia, home to four of the world's largest economies (China, Japan, South Korea, and Taiwan), of staggering global consequence.

Just as North Korea seeks to extort the U.S. with the ultimate nuclear deterrent against any regime change or related existential military operation against Pyongyang, Iran is learning North Korea's geopolitical lessons well.

Teheran is determined, regardless of any international agreements, to achieve a nuclear weapons capability married to a ballistic missile delivery capability far beyond its self-defense needs. Its end-game is to credibly extort America's European allies—and U.S. military forces in the Middle East and the Indian Ocean—to prevent any major U.S. military operation that would end the radical Shia rule of corrupt theocratic clerics.

One major difference between North Korea and Iran is that South Korea actively seeks a long-term solution based on reunification of a single Korean nation, ideally under free-market democratic rule. Iran has no major allies to speak of in the Middle East. It supports clients such as Bashar al-Assad in Damascus, as well as terrorist organizations Hezbollah in Lebanon and Hamas in Gaza, and separatist actions in Bahrain, the tiny kingdom where the U.S. Navy headquarters the Fifth Fleet to ensure open Persian Gulf access for global oil and natural gas deliveries.

Iran's support for the Houthi rebels in Yemen against a Saudi-friendly government triggered an extraordinary Saudi response that may generate the world's next great humanitarian crisis in 2019. Millions of Yemenis face imminent starvation under the brutal Iranian-Saudi proxy war in that beleaguered nation, whose location astride the Bab el-Mandeb maritime chokepoint, a dangerously contested waterway linking Asian and European markets through the Indian Ocean to the Mediterranean Sea.

The geopolitical scale of global upheaval—especially among the great strategic challenges of the day—is relatively new to most observers of international affairs, especially those too young to remember the tumult of the Cold War, and the profound divisions that threatened to rupture the NATO alliance in the 1980s after the specter of a nuclear exchange in 1962 and again in 1973. But such challenges are not unprecedented.

The U.S. and its allies and partners worldwide have maintained a relatively steady hand in global leadership in recent decades. Internal forces such as the growing divide between heartland citizens and cosmopolitan elites, in the U.S. and in leading Western countries, pose a new kind of political conundrum within democratic political systems. To work effectively, they must balance majority political rule with minority rights and protections based on a foundation of shared economic growth for all—the essential compact between citizens of every democratic nation-state.

So, What's Next?

External forces, premised on the return of raw geopolitical power unleashed at the regional and international levels, are reordering the political decision-making of world leaders on a constant basis.

The rise of a powerful China was inevitable—the question remains how best to persuade the Middle Kingdom to follow established global trade rules, systems, and values, and to implement some measure of respect for human rights and individual dignity for its citizenry.

The return of a vengeful Russia threatens stability along Europe's eastern front and in the Middle East, and perhaps increasingly within the fragile political systems of the wider democratic world.

Europe enjoyed a period of peaceful prosperity unimaginable after the horrors of two world wars and a great economic depression. Yet its leaders seem willing to further pursue utopian ideals, at the risk of infuriating their working citizens, who bear the high-tax/low employment burden in supporting largely unaccountable EU technocrats.

At the sub-strategic level, Iran and North Korea will require clarity of purpose, more definable and achievable objectives and outcomes, and proper consultation—even with rivals China and Russia—to ensure that regional crisis do not escalate to the strategic level of war among the world's greatest powers.

The stable post-Cold War era of international rules-based norms is largely ended, replaced by the exercise of increasingly maligned political, economic, and military power. Brace for the era of global geopolitical volatility on the edge.



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