

# GEOPOLICY MEETS PANDORA'S BOX

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Photo: 3rd Lisbon Conference "Development in an Age of Uncertainty", Calouste Gulbenkian Foundation, May 2018.  
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I want to begin with two dates that are crucial in understanding this moment. One is 1992. Three things happened in 1992: the fall of the Soviet Union, the signing of the Maastricht treaty and the emergence of the United States as the only global power. Remember that until 1992 there was a Cold War and it did not always look like the United States would win it. The United States was obsessed by the Soviet Union and the Soviet Union was obsessed with the United States. With the fall of Soviet Union it was like, if in "Tug of War" someone suddenly cuts the rope... The United States was completely off-balance. It did not know how to respond, and it still does not know how to respond.

We should remember that the British Empire begins with Britain being defeated by a Third World power that could never possibly do that: the United States. Nevertheless, despite this defeat, the British Empire emerges and dominates the 19th and the first part of the 20th century. It is almost inevitable when you look at Rome, or other similar empires, to see that the first stage of building an empire is not planned and the political system that is governing it doesn't know what to do.

So, it should not be a surprise that one of the characteristics of the world today is that the only existent global power is very uncertain on how to respond to events. What are the things that matter to the United States? Where should it and shouldn't it involve itself? These are uncertainties that will take a generation to work out. Therefore, we live partly in a world in which the organizing power is highly disorganized, and this is simply the process of unilateral global power.

In 2008 something else happened that is extremely important: what I will call "the global export crisis". From the 1980's onward, the international economic system overbuilt its industrial plant. This was particularly true in emerging countries like China. Its industrial plant had to be larger than the domestic consumption, because this was how they would generate the capital to maintain it. And this was regarded as brilliant because it was believed those countries that could export the most were the most efficient, and those who couldn't export were weak. But it ignored one basic problem, which is that the exporting power is a hostage to its customers. If its customers couldn't buy, the industrial plant was paralyzed, at least to some degree.

And in 2008, a financial crisis - the fourth since World War II - hit the world and destabilized it, starting with the United States and Europe, which were the great customers of China and could no longer buy as much as they had from them. And the Chinese, that were dependent on the continuous marginal increase of exports, suddenly staggered. Their basic model of neglecting domestic consumption and maximizing exports ran into a brick wall. They were, in effect, owned invisibly by the United States and Europe. As I usually say, Wal-Mart and Carrefour were the great powers that governed China's future. And suddenly China had to find a new way to manage its system.

After this, you also had another problem, which is that those countries that sold China primarily raw goods (like industrial minerals, oil, copper, etc) lost their market. And for a very long time it appeared to the commodities market that China would quickly go back to consuming at the previous level, and therefore the prices should continue to stay up. But they did not understand that China's decision to consume or not consume was dependent on Europe and the United States. If these regions could buy, China would buy more goods.

Finally, in 2014, it became apparent that the Chinese production capacity would not rise, primarily because, although the United States were slowly returning to normality, the Europeans were much more divided in their consumption patterns and much more limited in what they were going to do. And China was also now facing competition at lower costs, from Vietnam, Colombia and other countries, which meant that the Chinese were not going to regain the position they had before.

And so, the price of oil, particularly, fell and this destabilized Russia in the sense that the promise of the construction of a normal modern economy, which had been neglected by Russia since 2001 for various political reasons, was not going to happen. Now Russia had to worry about its ability to maintain its national budget, something that was very difficult, and it had to dip into its reserves, and was still struggling with an important question: what had been a very powerful position, an exporter of energy, became a trap because energy consumption was not growing (in many places it was in fact declining).



The second country that experienced this was Saudi Arabia, which was built politically on oil because it could maintain the internal stability of the Saudi Kingdom with the careful distribution of wealth, thus stabilizing the tribal system within the Royal family. With the price of oil falling, the Saudis were no longer able to do this. Suddenly the Iranians emerged: dominant in Iraq, present in Syria, dominating Lebanon, operating in Yemen. You look at the map and Saudi Arabia, the heart of the Sunni Islam, is surrounded by a Shiite power. How deep and how powerful this power is, that is another question - but it certainly destabilized the Middle East.

Thus, you have a situation where the Chinese had a financial problem, which always follows the decline of exports: how to manage bad debt? And they did not know how to do it because managing a non-performing loan (NPL) crisis normally requires somebody to be hurt: the creditors or the debtors, somebody is going to pay. And China, like any other country, didn't want anybody to pay. But since they were going to have to pay, the country had to have a more powerful central government to control the pain. And Xi Jinping, the president of China, emerges not of China's strength, but of its weakness.

If it was strong it wouldn't need a dictator. But it's not strong and it needs a central government that can stabilize it through an extremely painful period. For example, it must get rid of the corruption, and for that it needs a powerful leader who is not vulnerable to counter-action.

In Russia, you had Vladimir Putin, who had promised prosperity and returning Russia to be a great power but was not quite reaching that prosperity and not quite being considered having a big power. So, it was doing things in Syria, partly because he can, and partly because he must do something to try and keep those promises.

Of course, the greatest danger is Europe. The problem of Europe is Germany, which exports 50% of its Gross Domestic Product (GDP). That's an extraordinary amount for the fourth largest economy of the world. We are not talking about the Czech Republic or Slovakia. We are talking about Germany! The largest single country consumer of German products is the United States (US) because the US is an import power (which has its own crisis) and the problem is that US is eventually going to have a recession.

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We have never gone longer than ten years without a recession. It's been eight and a half years since the last one. And we will have another one because recessions are necessary and healthy to an economy: they get rid of weak businesses, they free capital for new businesses. They are, as any economist knows, part of the business cycle and a necessity - and thus we will have one in the future. The first thing the Americans will stop buying is industrial machinery because it is always the case in the United States. And who are we buying industrial machinery from? The Germans. So now the Germans are facing the possibility of an American recession and that will not hurt the Americans nearly as much as it will the Germans. Normally Germany would depend on their financial system, but this is the amazing thing: Germany, economically seemingly powerful, has a chaotic financial system. Deutsche bank, Commerzbank, they cannot finance the German way through an economic crisis, partly because they have avoided economic crises by using those banks to finance their way out of those crises. So now Europe faces its own problem.



In each country this becomes a social and political problem. For China the solution, thus far, is Xi Jinping. That is a political solution. For Russia it is the strengthening of Putin's hand.

For Europe it is the rise of nationalism. Because Europe has never established the idea of what it is. The European Union is a trading organization. And a country joins a trading organization when it is good for it and leaves when it's bad. Europe also wants to talk about a European character. And that is a good idea, but the problem is that the Germans know they are not Greeks and they are not going to give Greeks money; the Italians know they are not French; the English know they are not really European. Thus, what is happening is the rise of nationalism, to which Claude Juncker's solution is yelling at everybody to stop doing it! Of course, they are not going to stop doing it because the question in Europe is: what is the thing that holds us together? The answer is prosperity. What is Europe without prosperity? Or what is Europe with divided prosperity in which Netherlands has one set of expectations of what life is about, and Greece has another?

The global problem is therefore hipper-interdependence throughout the world. In the previous crisis like this, the Third World debt crisis, interdependence was much lower and was managed in a certain way that it did not have ripples across the entire system. This crisis has ripples everywhere and they won't stop. In this crisis Germany depends on a given country for its consumption, that country depends on another, everybody depends on each other and it works perfectly in prosperity. But it is the management of economic dysfunctions that is the measure of a good model and this is a big problem in this case. It's a good idea that all of Europe can be one, but the Europeans have long memories. I was born in Hungary and my mother, years ago, still would not forgive Romania. My father said that for Europe the basic principle is: never forget, never forgive. The Maastricht Treaty of 1992 was designed to show that everything is forgotten, everything is forgiven. And it was... until 2008. And then the question became: what does Germany owe Greece? Germany is now lecturing Poland on liberal democracy without any sense of irony by the Germans that this is a very strange thing to do. The Hungarians are going their own way and they don't care what happens.

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You see Europe returning to what it is: a continent of 52 different nations with different languages, different histories, different enemies, different friends... who had gotten together to be rich. They did not get together to help the Greeks.

Amid all this the United States has an import crisis. This crisis is simple: we fuelled our economy by cheap imports from the world. As a result, large segments of the American society lost their jobs and these segments have risen and produced an extraordinary person: Donald Trump. But you should have expected something like this; maybe not this much but you should expect the rise of a very strange player, because the people who used to be in control lost credibility. And the main difference is that, while Obama would have said about North Korea that we regard what they are doing as serious violation that will have the greatest consequences, what Trump said is "We're going to bomb you till you glow!" They both said the same things but with different words. Obama was much more pleasant about it. We Americans love to have fun and we are having a great time with our politics.

But this doesn't change the fact that the United States represents 25% of the World's economy, it is the only global power and that America doesn't know what it's doing. How could it, since it didn't expect to be in this position? We are still trying to figure out, a generation later, what it means to be the world's only global power and whether we want to be it, or whether we rather be left alone. And you can see this recently in Syria, where Trump said one day: "I'm leaving!", and the next day he bombed the Syrians. But the nice thing for the US is it can afford to do that. We can afford to be crazy. Many European countries don't have that room to manoeuvre; you must be much more careful in what you do.

What we are living in is this: in 1992, for the first time in 500 years, no European power was a global power. Russia was the last and it fell. The only global power was the US, which was completely unprepared for this. The world created a structure that I will call "cantilevered", like a gothic cathedral where every part depended on another part and if you pull a part out, the entire thing comes down plunging the world into an economic crisis, which is now a social and political crisis.



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We are now in a political period of instability and in that political period we will hack through for the next 10 years, at least, trying to find out what to do.

There is one constant in all of this: nationalism. The European Union wants to declare nationalism to be evil, and they can. But the fact is that there is a secret in Europe, a secret in China and a secret in the United States: I am an American, you are a Portuguese, they are Russian, he's a Chinese... And we love who we are. We have love of one's own. Europe is a place, it is not a people. And so, as this crisis deepens we are drawn farther and farther apart. Claude Juncker's solution (I love Juncker because every day he gives me something to laugh at) is to demand it to stop! Good. Somehow Victor Urban, the Hungarian president, doesn't want to listen. We demand that the Chinese stop aggressively exporting. But they must continue, they have no choice. We want the Russians to stop being pseudo aggressive (they are not aggressive, but they want to look that way). They can't. And you want the Americans to stop being irresponsible. And we won't.

We are in a world where we are trapped by reality and all the fine position papers produced in Brussels and in Washington are irrelevant to the fundamental problem, which is that we are in a moment when history is out of control and we are traveling in it. This is not necessarily the most comfortable position to be in, but it's even more uncomfortable when we have the illusion that we are in control. What policy will we follow? Who cares! History is on its own. It is very difficult to be in control of this situation, especially until the US grows up.

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**George Friedman** is an internationally recognized geopolitical forecaster and strategist on international affairs and the founder and chairman of Geopolitical Futures. Dr. Friedman is a New York Times bestselling author and his most popular book, *The Next 100 Years*, is kept alive by the prescience of its predictions. Other best-selling books include *Flashpoints: The Emerging Crisis in Europe*, *The Next Decade*, *America's Secret War*, *The Future of War* and *The Intelligence Edge*. Dr. Friedman has briefed numerous military and government organizations in the United States and overseas and appears regularly as an expert on international affairs, foreign policy and intelligence in major media. For almost 20 years before resigning in May 2015, Dr. Friedman was CEO and then chairman of Stratfor, a company he founded in 1996. Friedman received his bachelor's degree from the City College of the City University of New York and holds a doctorate in government from Cornell University.

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Criado em 1951 como instituição privada de utilidade pública, o IMVF é uma Fundação para o desenvolvimento e a cooperação, tendo iniciado atividade como ONGD em 1988 em São Tomé e Príncipe. A partir dos anos 90 expandiu a sua ação a outros países, com predominância aos de língua oficial portuguesa e aumentou as áreas de atividade. Já em 2017 voltou a alargar a sua ação a novas geografias em África e na América Latina. O trabalho feito e os resultados alcançados tornaram o IMVF numa entidade de referência nos domínios da cooperação e do desenvolvimento.

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