

4 Geopolitical Trends To Watch In 2019

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China's quest for global dominance, trade wars and the resultant weaponization of LNG, the first signs of instability in the Saudi Royal Kingdom and a global wave of populism—these are the four geopolitical time-bombs that investors absolutely cannot afford to ignore.

We're not talking about refugee crises and transnational threats anymore—we're talking about a cold war. We're talking about a complete reshaping of the world order. At no time in recent history has the United States' global presence been more at risk.

This is the Century of China—and everything circles back to Beijing—even Latin America's wave of populism, and even the Saudi Crown Prince's wild business ideas.

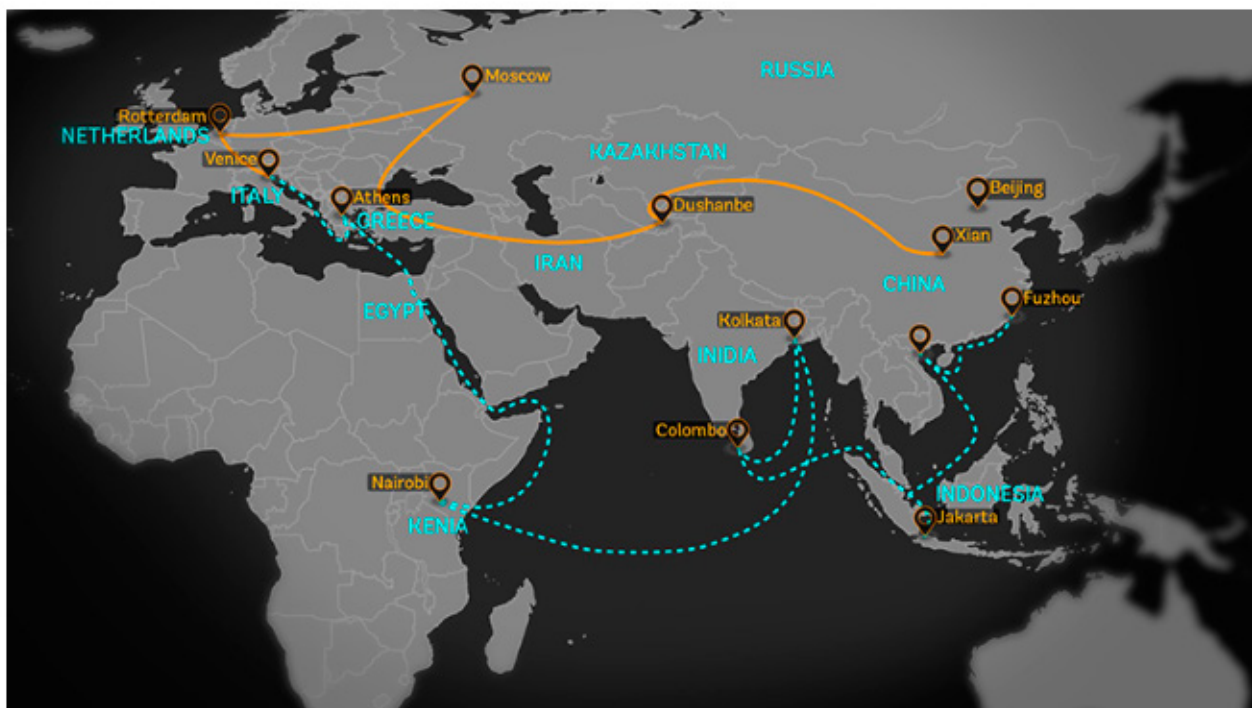
#1 China's Belt and Road Initiative: Where Global Dominance Becomes Real

The tariff war that started turning markets upside down in 2017/2018 runs much deeper than American manufacturing and fair trade—even if the American president doesn't know it. Ultimately, it's about containing a China that is pursuing global technological dominance and the biggest and smoothest-running supply chain that the world has ever seen, in the form of the Belt and Road Initiative and the Made in China 2025 plan.

By mid-2018, it was clear that a cold war was forming. By late 2018, Washington had already labeled China a national security threat. And this is precisely what the US decision to withdraw from the INF missile treaty with Russia was ultimately about: Though Russia had taken advantage of the treaty for long, Washington's move gets rid of restrictions and allows the US to prepare for a military buildup against China.

China's initiatives are feasible because it has state-run companies that do its strategic bidding, whereas the West is at a disadvantage because its giant companies are not strategically beholden to state interests.

That this is the biggest threat to the global world order is apparent in the fact that the plan includes one-third of the entire world's trade and GDP, and involves over 60 percent of the world's population, according to the World Bank.



That is global market dominance, mapped out clearly and poignantly.

More specifically, the Belt Road Initiative (BRI) aims to connect China with around 65 countries that, together, comprise over 30 percent of Global GDP and hold 75 percent of the world's known energy reserves. China is underwriting billions of dollars in investment to make this happen, and this formidable soft power is winning hearts and minds globally.

Once this is solidified, we will have a new world order because this will not only reshape global trade, but the global balance of power.

China will win the South China Sea dispute by buying influence and rewarding those countries who are willing to sell their support, or their silence. There will be no fighting China's victory here short of an all-out armed conflict.

Beijing insists that there is no geopolitical aspect to the BRI, and that it does not seek to change its policy of non-interference in the internal affairs of other countries and does not seek hegemony or dominance. Even so, that is exactly what will happen—stated policy or not.

This power shift has been helped along by a string of foreign policy missteps from the US, the most damaging of which have been under the last three administrations, reducing its soft power and allowing China to grow its influence in many strategic regions.

More than any dramatic upset in the Middle East, China's is by far the greatest threat to the global status quo.

#2 Trade War and the Weaponization of LNG

Tariffs will not bring manufacturing home to the US, or serve to create more American jobs. Quite simply, it will force companies to relocate to other cheap labor venues (Vietnam, Indonesia, possibly Africa). What they will do is weaponize liquefied natural gas (LNG).

Washington's foreign policy missteps threaten to push Russia and Iran closer to China. And nowhere is this illustrated more clearly than with respect to LNG. The tariff warfare has resulted in retaliatory moves by China to slap a 10-percent levy on all imports of U.S. LNG—and no LNG project is worth anything if it's not going to have Chinese buyers. After all, the biggest demand growth for natural gas comes—and will continue to come—from China.

Beijing understands, in its soft-power prowess, the importance of LNG as a weapon. On the energy scene, few things are more important to the U.S. strategically, than dominating the global LNG scene. A deal with gas-hungry China would have helped seal that fate. Now all deals are off. In fact, in the third quarter of 2018, the situation led the main backer of a giant LNG project in Louisiana to delay a much-anticipated final investment decision. If they don't have access to Chinese buyers, the project doesn't look nearly as attractive. While the U.S. is hoping to make up for this with deals with Europe and Japan—using bullying tactics to get there—the loss of China will be extremely painful.

The final blow in this weaponized LNG fight will be over Iran. Since France's oil giant Total SA felt obliged to withdraw from its deal to develop Iran's South Pars natural gas field, China was more than happy to step in and fill this void. Once this is developed and up and running, China's loss of U.S. LNG won't be nearly as damaging from the buyers' side. Natural gas-giant Qatar will also benefit from the escalation of the trade war, as will Canada and Australia.

If the U.S. loses LNG, it will have lost one of its biggest weapons in the global geopolitical power struggle. The global status quo can easily be destabilized by the shifting of alliances in the increasingly important global LNG market.

#3 Middle East Game of Thrones

Anything goes in Saudi Arabia, and Crown Prince Mohammed bin Salman (MbS) will do anything—even against the strong warnings of his advisers and experts—to stabilize the economy and fund his increasingly grandiose projects. The influence of MbS notably spiked in 2018, starting with a massive 'purge' of Saudi business elite who were arrested and harangued into funding MbS' Vision 2030 plan, which includes massive projects that appear not to be economically viable. MbS then came under further scrutiny due to his apparent role in the murder of a critic, journalist Jamal Khashoggi, which put U.S.-Saudi relations in jeopardy.

Late 2017 and early 2018 saw a Crown Prince that had no qualms about breaking with the old-guard's way of thinking or breaking Saudi taboos. Part of the reason for the increase in desperation coming out of Riyadh was the change in regime

in Washington. Where Obama had placed tough restrictions on the Saudis, Trump embraced them wholeheartedly, and this gave rise to a much broader 'anything goes' atmosphere, which allowed MbS to solidify his power. The first reward Trump gave the Saudis was Washington's withdrawal from the Iran nuclear deal and tacit support for Saudi Arabia's proxy war against Iran in Yemen.

Under Trump, there has been a much more definitive polarization of Middle East alliances—for and against Iran. There is greater geopolitical risk now related to a continuation of Washington's strong support for the Saudis than there is related to a potential rift in U.S.-Saudi relations. Saudi Arabia, the UAE and Egypt are lined up against Qatar, as part of the 'axis' against Iran, which the U.S. is fully supporting. The conflict in Yemen is spiraling out of control, a conflict that is almost entirely about Iran-Saudi tensions. Now, Turkey is siding definitively with Iran: A message Erdogan has made clear in his anti-Saudi statements over the murder of Khashoggi at the Saudi consulate in Istanbul. The lines have been drawn in the sand and these actors are threatening to pull the U.S. deeper still into a massive Middle East conflict. Perhaps even more threatening, the U.S. risks being pulled into a direct conflict with Iran in Syria.

Only a return to more cautious relations with Saudi Arabia could head this off.

Currently, U.S.-Saudi relations are tied to the future of oil prices as Saudi Arabia has resumed control of the oil markets to make up for the U.S.-inflicted loss of Iranian oil. This could mean a high level of uncertainty in oil prices if U.S.-Saudi relations become rocky.

The 'weaponization' of crude as a form of retaliation for any negativity from Washington over the Khashoggi murder would not be a particularly wise move by the Saudis. Pushing oil prices up to \$200 a barrel, for instance, would have global market repercussions and likely a global recession that the Saudis cannot afford, even if they are desperate for the extra cash. (Then again, we always have to account for the wild unpredictability of MbS, who also thought a \$2-trillion Aramco IPO would be an easy sell).

There is always much nail-biting in investment circles any time there is the potential for a high-level royal drama in Saudi Arabia, which in this case would be the removal of the Crown Prince. Our sources on the ground believe this is unlikely at this point in time because in the aftermath of the purge of the Saudi business elite, MbS is far too powerful. He can stifle dissent when necessary, even when it concerns family members. We view MbS as having lost a certain amount of stability in mid-to-late 2018, but not enough to justify replacement.

A divided Middle East has provided Russia with an opportunity. Syria was its springboard, and its influence has grown since then. It's playing the role of power broker in Libya, and it's heavily courting U.S. allies elsewhere (Saudi Arabia, Egypt—even Israel). What it's doing most specifically is gaining influence that it can use against Washington when it needs.

On top of all of this, China is gaining significant influence in the Middle East – most notably in Saudi Arabia. The Khashoggi

murder has only made Chinese interest even more vital. China isn't bothered about human rights and does not use them as a tool to gain leverage, it is also focused on gaining influence in return for investment rather than profit. These two factors make China a perfect partner for MbS' wild projects that appear not to be financially feasible.

#4 The Populism Wave

For years there has been talk of a wave of populism overtaking Europe. But that conversation was just a prelude to the real thing—from the U.S., to Europe and Latin America. Populist uprisings appear to be threatening liberal democracy around the globe. The fear is growing that history is set to reverse itself. Walls fell, now they're going back up in a wave of anti-globalization that threatens to tear apart emerging markets.

We are witnessing the age of severe fiscal irresponsibility, and it will be a global contagion.

In Italy, a new far-right coalition government has won over the hearts and minds of a population tired of living under austerity measures—and tired of the European Union. That government, highly indebted, has embarked on a fiscal fairytale of promises that could infect the rest of the European Union.

The only silver lining here is that populism is precisely about being popular. Trump's corporate tax cuts, Italy's dreamy hand-outs to the working class, Brazil's vague promises that will make everyone happy ...

They won't necessarily deliver on all their promises, so from a fiscal standpoint, investors are hoping that we will be looking mostly at face-saving measures that make it appear as if this is a fight of the people, by the people and for the people.

For Italy, for example, standing up to Brussels is what this is all about, and the new Italian government scored some significant points in late 2018 when it belligerently pushed an unrealistic 2019 budget to the EU, which summarily rejected it.

But Italy is but one venue in this much bigger story. October 2018 saw a victory in Brazil for far-right candidate Jair Bolsonaro. And July saw a populist leader assume the presidency in Mexico, with the victory of Andres Manual Lopez Obrador.

China is taking full advantage of unrest in Latin American, aiming to be the supreme power broker here, followed by Russia—all in the U.S.' backyard.

The far-right 'Alternative for Germany' is also gaining power by the hour and is not in the Bundestag, effectively challenging Merkel. In 2017, we saw far-right parliamentary victories in both Austria and The Netherlands. That same year, we saw a populist party win a decisive victory in the Czech Republic. Then we have Hungary, which is very far down the far-right path, and Poland, which is catching the frenzy. These victories will embolden their far-right brethren in the rest of Western Europe, and the wave will pick up momentum.