

## Ian Bremmer highlights hotspots in a G-zero world

Bailey McCann, Opalesque New York:

Forget the G-7 or the G-20, last year political scientist Ian Bremmer told us that we are now living in a G-zero world – or a world where there is no global leadership structure. Bremmer is the president of Eurasia Group, a leading political risk consulting firm that provides financial, corporate and government clients with information on how political developments move markets. He also created Wall Street's first political risk index, and has authored a number of best selling books on geopolitical issues. I had the opportunity to speak with him at the Altegris Strategic Investment Conference in Carlsbad, California last week and he took me on a whirlwind tour of the world's geopolitical hotspots.

As Syria takes center stage, we are now beginning to see what Bremmer's thesis looks like first hand. "The US is not playing a global leadership role and doesn't want to," he explains. "We are very reluctant to do anything in Syria, we are also moving our red lines there, and we are leaving Afghanistan." He notes that while the US may lead the economic recovery, it is dialing back its role as superpower and global police force.

### **The US, China & employment**

"You see the Chinese trying, they said they were willing to facilitate negotiations between the Israelis and the Palestinians, good luck to them. The US doesn't want to do this stuff anymore. That said, in the current geopolitical environment, the US is by far the best large bet. That's true in part because of the relative resilience and stability of the US market. We have the energy, and we'll have a lot more of that. We have the food, the defense capacity, the cyber defense capability and cyber offense capability, that makes the US a more attractive market."

He notes other bright spots in the US like the energy revolution, and says there is a "good chance" immigration reform will go through. He also says that even though sequestration wasn't the best way we could have done it, the measure has improved the US budget situation as well.

The real problems with the US, he says, are unemployment and special interests. "The problem the US has is not a problem for investors, it's a problem for many Americans who aren't investors. That's sad, and that needs to be fixed. It should depress those of us who have believed in the American dream for all Americans since our nation was founded. There is no doubt in my mind that the US is in decline from the perspective of the bottom half of the earners in the US, and has been for decades – we're not addressing that."

Part of that is due to a shift in manufacturing that requires less human labor. "It's not just globalization. Manufacturing is a lot less labor intensive here than it was. It is not that way yet in China, but it will be over time, and that's going to be a problem for them. The Chinese government needs to keep those people employed at their own peril, in a way that the US doesn't. If China were to have Spanish type unemployment the Chinese government would fall, very clearly."

He says that the American system is failing people who live outside of urban centers, or lack the technical or networking skills to find a job in this economy. Part of that is education, and part of that is due to the vastly different life experiences between people inside urban centers, and those outside of them. However, he doesn't see a solution coming anytime soon.

"There is not a lot of interest in Congress to change this situation because of special interests. Those special interests wield a lot of power and money, and they don't get anything from changing the way the system is set up. This is one of the biggest failings of the US system – the role money plays in the electoral process. No one talks seriously about campaign finance reform anymore, and it probably can't be fixed outside of a crisis in the US, and we don't have crisis."

Structural corruption is also the story in China. "In the US, money captures politics. In China, politics captures money and that can't be fixed," he says. For China to really take on corruption it would have to go after some of its most entrenched players and that won't happen outside of a crisis.

So where will the jobs come from? "I think there are going to be a lot of jobs all over the world in infrastructure. There are emerging middle classes who will need infrastructure and consumer goods. India is only 35% urbanized, Africa is 50% urbanized but still massively underbuilt." He says that structurally, over the long term, work will be much less labor intensive, and that may lead to further instability because many of the current drivers of economic growth right now are emerging markets, which by their nature are less stable.

"In the US, there will be more people with flexible job environments. Those jobs probably won't pay as well and they may not come with benefits. This isn't just a US problem, it's a Japan problem as well. We are going to have to see who the winners and losers are going to be and plan for that."

### **Hot zones**

I asked him about many of the hot zones making headlines around the world including North Korea, Russia, and Syria. "I am perpetually surprised by everything that comes out of North Korea because who knows what is happening internally there," he says. "It is hard to gauge whether Kim Jong-un is just inexperienced, or if him, or his government are under pressure externally, which is a different can of worms. I think that would create an enormous worry

geopolitically, especially for South Korea. Those are the two questions we need to be asking but it is too early to sound alarm bells."

### *Russia*

The Boston bombing shed light on tensions that have been simmering in the background between Russia, Chechnya and the North Caucasus for decades. "I think Putin sees this as an opportunity to be vindicated on Chechnya, there's no question," he says. There may be room for a deal between the US and Russia in which the US gives greater support on Chechnya in return for some flexibility on Syria, but that would be a bad deal for the US he says. "The war in Chechnya has no good guys."

### *Syria*

On Syria, there are few good options. "I would not provide military support for the opposition, I think it is too sectarian. I would support a no fly zone with American allies, which would require some direct military intervention on the air side. I would couple that with humanitarian buffer zones, and humanitarian aid from the UN and others. Even with that, the Syrians have real air defenses and we would take casualties." Unlike Libya, Syria has real friends. "We'd take a diplomatic hit from the Russians, the Iraqis, and others it would be significant."

He notes that it seems likely that the US will end up facilitating some support for the opposition, based on Secretary Hagel's recent comments, and that the situation is already having spillover effects. "Syria is the poster child for the G-zero. It's not just that the country is falling apart, it's starting to lead to the fragmentation in Iraq. Two days ago we started seeing Kurdish forces taking advance positions in Kirkuk. The possibility of Kurdish forces fighting against the government in Iraq is significant, we are also seeing the greatest escalation of violence in Iraq in a decade. That will effect investments in the country in a major way, and who is doing anything about it?"

The G-zero answer is that nobody is the answer. "We get used to saying things are unacceptable and then we find ways of accepting them."