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**STRATEGIC  
ESTIMATE  
2020**

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# Introduction

*Strategic Estimate* is Khilafah.com's annual assessment of the global balance of power. In our assessment of 2018, we concluded the US remained the world superpower and remained deeply involved in global issues despite rhetoric from the president and others to disengage from global issues. With US presidential elections due on 3rd November 2020 Donald Trump will be attempting to win a second term in office. He made many promises in his presidential campaign and his effect on America's global position will be assessed in *Strategic Estimate 2020*. In 2019 questions have emerged on America's grand strategy, is it working? Or does it need to change? The US continues to be dogged by imperial overstretch. Issues from Iran to Venezuela, from China to Afghanistan, America under Trump has struggled to achieve what would be considered meaningful outcomes. What does this tell us about the global superpower? *Strategic Estimate 2020* assesses America and whether Donald Trump has contributed to America's weakening or strengthened it.

China gained much of the international media headlines in 2019 as the US-China trade war went into full swing. China faced a variety of internal and external challenges as it attempts to strengthen its position in the world. China published its white paper which assessed its military capabilities and outlined how it plans to resource and deal with its adversaries. *Strategic Estimate 2020* will assess China's military capability. President Xi Jinping was given dictatorial powers in 2018 as China's two term

limit was removed allowing Xi to remain ruler for life. This was done in order to create stability in the highest office in China due to various impending challenges from China's economic model, wealth inequality, trade and developing China's interior. *Strategic Estimate 2020* assesses if Xi is succeeding or failing. Protests in Hong Kong has added to China's woes and show little sign of abating as Hong Kongers fight for remaining culturally and physically separate to China. This comes at the worst possible time for China as it shows the country has internal problems and contradicts China's attempts to show it's strong. *Strategic Estimate 2020* assesses what Hong Kong tells us about China's position in its region.

Vladimir Putin of Russia has now been at the helm of Russian politics for 20 years and in 2019 his approval ratings fell to its lowest level. Putin today faces a context very different from what he faced at the turn of the 21st century. His promises of making Russia powerful and modernising the economy has not materialised, as a result of persistent Western sanctions and low global energy prices. Russia has attempted to insulate itself from the West and *Strategic Estimate 2020* assesses where Russia's economy is today. A central aspect of Russia's global position has for long been showing the world it is powerful and this is usually measured via military means but overall Russia's military is still trying to modernise despite the announcement of some big-ticket platforms. *Strategic Estimate 2020* assesses Russia's grand strategy and what tools it really has at its disposal.

The European Union (EU) had another tumultuous year as the forces of nationalism and in some cases, fascism gained more ground. A number of right-wing victories across the continent is challenging the unity of Europe and calls for change continued in 2019. The German-French axis which is the foundation of the EU inked an agreement for economic, defence and political integration.

In 2019 the global economy was struggling to grow, and the spectre of a global recession is once again upon us. Global trade is being impacted by the trade war between the US and China and global debt is today worse than it was a decade ago. Much of the



world has still not recovered from the effects of the global economic crisis back in 2008. *Strategic Estimate 2020* analyses the state of the global economy and its constituent parts and assesses what its impact will be.

In 2019, Iran celebrated the 40th anniversary of its revolution. During this period its population has doubled and most of its population now consists of people who have never experienced the rule of the Shah. The clerical regime has managed to adapt and be adept at the changing internal demographics as well as international isolation. But in November 2019 mass uprisings across the country began to take place and a brutal crackdown not seen in the past four decades took place. How the clerics managed to survive for so long and if this will continue will be assessed.

It is difficult to not notice the lack of trust in politicians, the turning to unconventional political parties and the sentiments across the world that the global system, dominated by capitalism is no longer working for the masses and only seems to work for the few. Politicians now regularly have approval

ratings worse than debt collectors and the tax man and many on the right of the political spectrum are seeing success. As much of the world celebrated the 30th anniversary of the fall of the Berlin Wall in 2019, democracy, the free market and the global liberal order are seen as failing the majority. In *Strategic Estimate 2020* we assess how things have got so bad for Western values and the likely direction this trend will go.

What follows in sha allah is the author's opinion and assessment of 2019 and the trends for 2020 and beyond. Like any assessment, they are estimates and forecasts.

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# USA

***The global hegemon is looking like a mess. The US president tweets more than his team can justify, political polarisation and the prospects of impeachment hearings, American global leadership is a case study of how not to do things. Around the world the US has been engaged in numerous issues. Despite its flip-flopping president, America's achievements in 2019 have been very few.***

# The End of The American Century?

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Just over a decade ago in 2008, the US National Intelligence Council admitted for the first time that America's global power was on a declining trajectory. In its periodic futuristic report, *Global Trends 2025*, the council stated *"the international system -- as constructed following the Second World War - will be almost unrecognisable by 2025. The transfer of global wealth and economic power now under way, roughly from West to East"* and *"without precedent in modern history, is the primary factor in the decline of the United States' relative strength... Few countries are poised to have more impact on the world over the next 15-20 years than China."*<sup>1</sup>

The authoritative opinion of America's intelligence community has seeped into wider American society. A Pew poll in March 2019 asked Americans their views on where America will be in 30 years. More than half of those polled saw a country in decline economically, politically and on the world stage.<sup>2</sup> This contrasts with numerous polls from the east of the world who see America's global power declining.

Notable thinkers have been writing about the demise of America's global prestige. David Klion writing in the *Foreign Policy Magazine* wrote *"The American Empire is the Sick Man of the 21st Century."* In it, he described how foreign powers influence the American government to shape their own foreign

policy agenda. Standout examples: the Jewish state's ability to exploit American institutions to expand the contours of its territory, and Russia's interference in America's domestic politics to aid Trump's election victory.<sup>3</sup> Richard Haas writing in *Foreign Affairs* talked at length about the demise of American supremacy and steps the country must take to resurrect its decaying world order. Haas attributes *"costly overreach"* in *"trying to remake Afghanistan, invading Iraq, and pursuing regime change in Libya"* as one of the principal reasons behind the decline in America's global primacy.<sup>4</sup>

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The US today faces numerous problems and challenges unprecedented in recent history. The Cold War was an ideological struggle for which system should be the supreme system for mankind – the rest of the world needed to decide which side they wanted to be on. The US was able to set up a whole international order where anyone could join and they would see prosperity with free trade, free markets and be provided with security. But this global liberal order is crumbling, and the US is being stretched to deal with so many issues that it's struggling to deal coherently with many of them.



# Trumpnomics

On the 3rd November 2020 incumbent Donald John Trump will be running for a second term hoping to once again prove his critics wrong, who gave him little chance of winning the presidency in 2016. With his first term coming to an end this would be an apt time to assess his presidency, where the world's superpower is and whether President Trump has strengthened the US or weakened it.

The global context the US found itself in, in 2016 was a nation whose public had lost confidence with the US position in the world. The decades long wars in the Middle East had not turned out the way the politicians sold it to US citizens and in Syria many viewed the Obama regime had weakened America's global position.

America's pivot towards Asia did little to stop the forward march of China who began talking about an alternative order. In Central Asia and in Europe, especially in Ukraine, Russia was expanding and embedding itself and American promises of security were looking hollow to many of its allies.

America's global order created near the end of WW2 which would see the US manage, pay and operate a global alliance and economic order. This order served the US well for the duration of the Cold War. But three decades after the collapse of the Soviet Union it was struggling for survival. Many came to see the cost of giving preferential access to the US market to allies and the cost for providing global security to the global sea lanes as a liability rather than an asset. US corporations moved to cheaper locations and these jobs also went abroad. US imports of goods and services increased, placing these industries under strain, but the US reliance on the global order as a percentage of the economy was around 10%, the lowest amongst the industrialised nations. The Northeast and West coasts of the US benefited tremendously from free trade, while people in the centre of the country saw themselves as victims as their jobs went abroad.

It was this industrial working class that became

Trump's election campaign targets. He was able to build a coalition around the white industrial working class that ushered him into the presidency. This class were fed up with seasoned politicians saying one thing but looking after their own pockets and friends in the corporate world. Disillusioned by the democracy in the US the public was looking for an anti-establishment figure that would go against the grain. The 2016 election offered the worst of all possibilities and many voted for the lesser of two evils.

Trump took an 'America First' approach to trade and international affairs. Trump defined American global interests in transactional terms and repeatedly called for allied countries, including Germany, Japan, Saudi Arabia, and South Korea, to compensate the US for helping protect their nations. Since entering office, President Trump has repeatedly threatened to walk away from alliances that no longer seem to be paying dividends, regardless of old friendships or cultural affinities. One analyst described Trump's outlook: *"To Trump, U.S. alliances, like potential business partners in a real estate transaction, should always be asked: 'What have you done for me lately?'"*

Trump's main foreign policy positions were to work with Russia; he believed he could do business with Putin. Trump spoke of the need to deal with China, who was manipulating its currency at the expense of US consumers. For Trump, dealing with China included re-looking at tariffs, intellectual property and bringing jobs back to American soil. NATO was obsolete and other multilateral institutes according to Trump were not working for the US as its allies were not picking up the tab. Trump presented himself as anti-establishment and someone who represented the true American populace who lost their jobs to China and who the political elite neglected. His pitch was that he was part of the alternative right, who believed nationalism came before globalisation and American disengagement coming before the needs of corporate Americas foreign profits.

When Trump took office in 2017 his views were at odds with then the US establishment and there was going to be a clash with the other government agencies, security agencies and the corporate world.



# The Trump Doctrine ?



It's difficult to give President Trump a label or even a doctrine because he has never held public office. Trump is also a mercurial liar of the highest order. He has a loose relationship with facts. Because Trump flip-flops so much one has to rely upon his behaviour and instincts to ascertain his world-view.

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## 1. Zero-sum Transactionalism

President Trump criticised US long-term alliances even more than his enemies. Trump has argued the US has been ripped-off and other nations need to pay their way. The murder of journalist Jamal Khashoggi saw this on full display when Trump said Saudi buys US arms which helps US jobs so he would not be taking any action against the murder.

## 2. Raw Nationalism and Militarism

President Trump has constantly talked about America first. His worldview has not been composed of values but of nationalism and this backed up by a strong military. Despite his claims of bringing US troops back home, Trump approved a larger defence budget than his predecessor and increased the overall size of the US military.

## 3. Honour, Status and Respect

Trump has shown he has a very grandiose sense of himself and his standing relative to others is so inflated it rarely stands up with reality. As a result, he constantly feels undervalued. Respect and reputation has been a constant theme in the Trump presidency. In press conferences he held up letters from Kim Jong Un. After deriding Saudi Arabia, Trump's first visit was to the Kingdom as president and he was lavished with pomp and flair.

## 4. Authoritarianism

Trump has constantly exhibited authoritarian tendencies he has equated personal loyalty to patriotism and regards disloyalty as treasonous. Trump criticised numerous congressional hearings and individuals who opened investigations into his government as traitors.

# Trade Wars



Once assuming office Trump followed through on his trade position that US key trade partners were ripping the US of. Trump held America's key trade partners hostage by threatening to leave regional and global trade blocs unless they were renegotiated.

At his first opportunity President Moon of South Korea visited Trump at the White House and said there was no future without the US in the world where South Korea would survive. President Moon was prepared to renegotiate everything the US wanted on the United States–Korea Free Trade Agreement (KORUS FTA). The US made its security contingent upon the renegotiation of the trade agreement, the South Korean president fell into line.

Next up was Mexico, the nationalist Andrés Obrador didn't even go to Washington to renegotiate the trade deal, he sent his predecessor to Washington to come up with NAFTA 2. Obrador said he would ratify whatever NAFTA 2 would be.

Canada held out with the NAFTA renegotiations looking to get further privileges which were all wrapped up in the original NAFTA accord as Canada was a key ally during the Cold War. But relations fell apart between the two nations when Canada hosted the G7 summit in 2017 especially with Trump imposing steel tariffs on the Europeans and Canadians on the eve of the summit. America's chief negotiator called the Canadians and said the US has a bilateral deal with the Mexicans and the Canadians had seven days to accept this, the Canadians caved within six days.

Shinzo Abe of Japan visited Trump soon after his inauguration and believed he had an agreement on security and intelligence sharing. But six months later Trump levied steel tariffs upon Japan. After attempting to build a multilateral bloc with South Korea, Mexico and Canada, seeing they had already made bilateral deals with the US Abe caved into Trump's demands to renegotiate the trade deal.

Trump renegotiated with the countries that made up 50% of US trade and has delivered what he promised from his election campaign on trade.

## Fighting the Dragon

The trade war with China that was started by President Trump reached its second year in 2019. President Donald Trump in 2018 began setting tariffs and other trade barriers on China with the goal of forcing it to make changes to what the Trump said were 'unfair trade practices.' Among those trade practices and their effects are the growing trade deficit, the theft of intellectual property and the forced transfer of American technology to China. At the beginning of 2019 Trump had already imposed 10% tariffs on \$250 billion of trade between the two nations. By the end of 2019 the tariffs on \$200 billion had increased to 25%

Two years of the trade negotiations have been marked by multiple rounds of talks, truces and tariff escalations: the US and China agreed in October 2019 to a phase-one trade deal. After two days of talks that ended 11th October 2019, between US President Donald Trump and Vice Premier Liu He, China's chief negotiator, the White House delayed its planned October 2019 tariff increase on \$250 billion of Chinese goods. The deal committed China to buying \$40 billion to \$50 billion in American agricultural goods, enacting some intellectual property protections and currency measures, and taking additional steps to open its financial sector to foreign investors. By the end of 2019 this deal had still not been signed and especially when Trump criticised China for its response in Hong Kong.

Both sides made some conciliatory gestures throughout 2019, but the longer-term unresolved issues remain. What the US is asking of China is completely unreasonable, but due to China's dependence upon the US market she has been giving concessions.



# U.S. Economic Demands on China

They can be grouped around six key themes.

## **Trade Balance**

China must cut its trade surplus with the United States by \$200 billion by the end of 2020, compared to 2018 levels.

## **Intellectual Property and Technology Theft**

China must immediately end subsidies and support to industries in its Made in China 2025 plan, halt policies promoting technology transfer, and stop government-backed theft of intellectual property.

## **Tariffs and NTBs**

China must further open its economy to foreign imports and lower its tariffs to U.S. levels in all noncritical sectors. China must also remove certain non-tariff barriers in many key sectors.

## **U.S. Investment Restrictions**

China cannot issue challenges or retaliate if the United States places significant investment restrictions on Chinese investors in strategic sectors.

## **China's Investment Restrictions**

China must make it easier for U.S. companies to invest in China and remove foreign investment restriction and ownership requirements.

## **China's Non-Market Economy Status**

China must drop the vital case at the World Trade Organization challenging U.S. treatment of China as a non-market economy.





## North Korea

The US policy for North Korea has for long been to station 29,000 troops in South Korea and use the threat of nuclear war as a pretext to interfere in the region and as a pretext to counterbalance China, all of this has been wrapped up with constant messages of possible regime change by US officials in North Korea. Trump spent his first year in office ridiculing Kim Jong-Un. Trump warned the US would “*totally destroy North Korea*,” if forced to defend itself or its allies. Directly putting the country’s leader on notice, “*Rocket Man is on a suicide mission for himself*,” Trump said.

In 2018 a rapid change in the Trump’s position was seen; Trump welcomed summit negotiations in Singapore in June 2018. Trump came to believe regime change had failed and it was not going to happen under him. Trump was saying let the Koreans decide how to run the future of Korea—and back off this long-running, 65-year confrontation. Trump worked, using an odd, idiosyncratic personal diplomacy to build up trust with Kim. Three summits later from Singapore to Hanoi and even a presidential walk across the demilitarised zone into North Korea itself, little progress has been achieved. In persuading the North Koreans that they can have a better future without nuclear weapons Trump’s approach was to engage in a grand bargain, a willingness to embrace the North Korean leader by lifting all sanctions against that country in return for complete denuclearisation. Those grand plans gave way to a more incremental and much more familiar process of going step by step. But this yielded little in the way of concrete actions primarily because the North Koreans have refused to meet any US negotiator unless that negotiator was Donald Trump himself.

Despite Trump’s position of reducing America’s global military footprint there were too many forces at work behind the scenes aiming to undermine Trump’s trust-building which has ensured Trump’s agenda was not achieved.

# America's Longest War

Donald Trump became the third president to grapple with what is officially America's longest ever war — longer than WW1 and WW2 combined. Former presidents Barack Obama and George W. Bush went through multiple strategies over the course of their presidencies to try to stabilise Afghanistan. When Trump became president, the US had already become the newest addition to a growing list of empires that faced and failed to overcome many of the same challenges that have repelled invaders for centuries in Afghanistan.

After an election campaign which saw Trump reiterate US withdrawal from global conflicts, Trump did another U-turn in August 2017 by unveiling his long-awaited Afghanistan strategy. The Afghan war divided his administration and saw a number of advisors relieved of their posts. President Trump reaffirmed his commitment to Afghanistan in his address to the nation. His speech highlighted the familiar challenges associated with the Afghan theatre, but the US president accused Pakistan for its role in America's failure and Trump highlighted his reali-

sation that a hasty withdrawal of troops would have dire consequences. At the centre of his strategy was a vague policy on troop numbers and deployments all pointing towards conflict management as opposed to conflict resolution. Despite Trump's rhetoric about Afghanistan, he presented a strategy not fundamentally different to his predecessors. If there was anything that could be done to win Afghanistan, Trump's predecessors would have already implemented this by now. Trump merely continued and institutionalised what his predecessors were doing — that is managing Afghanistan through the surrounding nations.

When Trump called of peace talks with the Taliban in September 2019, there were more troops in the country then when he became president. America's inability to use military might to shape a stable political solution after spending circa \$1 trillion in Afghanistan and in the process; at least 10,000 people have been killed or shot to pieces, Afghanistan poses an enormous challenge for the US to define an honourable exit after 18 years of humiliating occupation.



# Syria

President Trump and America's defence establishment and the neocon's have been on different pages in the case of Syria. From the beginning of the uprising in Syria US policy makers orchestrated a complex plan to maintain the Syrian regime by engaging multiple regional nations to patrol different areas within Syria in order to crush the revolution. America was able to lure Turkey, Saudi Arabia, Qatar, Iran, Jordan and eventually Russia to participate in the plan. ISIS also played its role in by over-stretching the rebel factions by forcing them to fight both ISIS and the regime. All these nations and entities dutifully played their roles despite differences amongst them on many occasions. The US maintained a small military footprint throughout the uprising and project managed the other nations.

In December 2018 after a telephone conversation with Turkey's President Erdogan, Trump declared 'we have won against ISIS,' and unilaterally announced a total withdrawal of the 2,000-2,500 US troops in Syria. The announcement was made on Twitter and without any consultation with Congress, military commanders and civilian advisors. They were all informed via his tweet. The Pentagon, State Department and several congressional publicly criticised the move. Defence Secretary Jim Mattis resigned in protest. The withdrawal eventually turned into a partial drawdown, which eventually turned into an observer force remaining. Under pressure from Congress Trump caved in.

Trump waited until 6 October 2019 to try and withdraw US troops again. Once again after a phone call with Turkey's Erdogan, Trump ordered the Pentagon to withdraw US troops from northeastern Syria, but this time to allow Turkey to conduct a military operation in North Syria against the Kurds who had been supporting the US against ISIS since 2014. The announcement was harshly criticised by Congress members of both parties. Trump defending his decision to withdraw American troops and abandon the Kurds of Syria argued that the US commitment to them is overblown and stated they *"didn't help us in the Second World War, they didn't help us with Normandy as an example."*

The surrounding nations have been central to the US position of propping up the regime in Syria, Trump has been trying to use Syria for his own electoral purposes.



# Venezuela

The biggest failure of President Trump's term has been Venezuela and the attempt to instigate regime change. The very public criticism of President Maduro, the very public support from Trump for opposition leader Juan Guaido meant there would be little leeway if the regime was not toppled, but things worked out very differently.

The Trump strategy was regime change and initial plan appears to have been to get the international community to support the Venezuelan opposition and recognise Guaido as the country's interim leader, which was meant to delegitimise Maduro and cause regime change. This failed to materialise as the opposition needed to get the military on its side and despite its best efforts, the military remained loyal to the government, as its members are dependent on benefits allotted through Venezuela's patronage system. The opposition also needed to sustain a high level of support for public protests and anti-government demonstrations. It managed to achieve this for a while, but eventually, many Venezuelans decided to either flee the country or focus on their own survival rather than spend their time at rallies. The actions needed to achieve both these goals posed a high risk for participants and the opposition ultimately didn't inspire enough confidence to convince enough people that assuming this risk was worth it. Millions of Venezuelans fled the country and sought refuge in other South American countries.



The US remained committed to ousting Maduro. The crisis pulled in external actors from outside the Western Hemisphere that had some interest in settling the dispute one way or another. Historical Venezuelan allies like Russia provided some support for the Maduro government, while European countries voiced their support for the opposition.

Once the Guaido gamble failed, Washington needed to reconsider its strategy. Military intervention was out of the question given the enormous financial and political costs. In August 2019, President Donald Trump signed an executive order to impose a total economic embargo against Venezuela. Venezuela was declared to already be in default regarding its debt payments by credit rating agencies. Hyperinflation reached 10,000,000% by the end of 2019.

***“At the end of 2019, Maduro is still the president even as the country is collapsing. Venezuela is Trumps biggest failure.”***

Sanctions were proving effective but couldn't force Maduro from office. So, the US decided that the time was right for talks with the Maduro regime itself. In August 2019 a meeting took place between top US officials and Diosdado Cabello, the vice president of the United Socialist Party of Venezuela (the party led by Maduro) and head of the pro-government Constituent Assembly. Maduro, Cabello and Defence Minister Vladimir Padrino Lopez effectively control the government – any deal for a transition would likely require support from all three. The main purpose of the talks reportedly was to discuss an exit strategy for Maduro and his supporters. Shortly afterwards, Maduro and Trump acknowledged that their countries were in direct talks. In late August 2019, US special representative for Venezuela Elliott Abrams suggested that the US and Venezuela were in transition talks and said the US didn't want to prosecute Maduro and would support a dignified exit.

At the end of 2019, Maduro is still the president even as the country is collapsing. Venezuela is Trump's biggest failure.

# Assessing Trumps Presidency

President Trump has been a very unconventional ruler and, in his term, he has said and done many things which were considered unthinkable for any sitting head of state, let alone the global superpower. During his electoral campaign Trump emphasised a nationalistic foreign policy that idealised, American sovereignty, based around a conception of US economic and security interests. This resulted in a transactional foreign policy, with the president pursuing those interests with little regard for international norms or institutions. Non-citizens are given little consideration and values and ideals are perceived as luxuries at best and obstacles to the pursuit of the national interest at worst. The Trump doctrine (if there was such a thing) is unsentimental and confrontational and ostentatiously so.

Trump began right from the beginning with his bravado strategy. On 20 January 2016 Trump took the oath as president and boasted about his crowd size. When evidence clearly showed the size of the crowd was much smaller than his predecessor. He and his White House Press Secretary attacked the media for fake news and photo editing. Lying in the face of overwhelming evidence has been a regular feature of Trump's term in office.

Few alliances have avoided the president's criticism. He has called NATO 'obsolete' and named the EU as the US's 'biggest trade foe.' Nor are newer allies secure. The Kurdish People's Protection Units (YPG) lost 11,000 since 2014 in an American-led war in Syria, but the president abruptly cast it aside in October 2019. *"We never agreed to protect the Kurds for the rest of their lives. I don't think it is necessary, other than that we secure the oil,"* Trump tweeted.

Trump's position on Saudi Arabia and the assassination of Jamal Khashoggi in 2018 saw Trump's transactional worldview on full display. When the whole world and many from Congress were pushing for sanctions his thoughts were firmly on the transactional nature of Washington's relationship with Riyadh: *"I don't like stopping massive amounts of money that are being poured into our country on—I know they're talking about different kinds of sanctions, but they're spending \$110 billion on military equipment and on things that create jobs, like jobs and others, for this country."* In a remarkable statement that attempted to end debate over the American response to the killing, Trump said "It could very well be that crown prince had knowledge of this

tragic event- maybe he did and maybe he didn't! We may never know all of the facts surrounding the murder of Mr Jamal Khashoggi. In any case, our relationship is with the kingdom of Saudi Arabia. But whether he did or whether he didn't, he denies it vehemently. His father denies it, the king, vehemently." Then Trump tweeted *"Oil prices getting lower. Great! Like a big tax cut for America and the world. Enjoy \$54, was just \$82. Thank you to Saudi Arabia, but let's go lower!"* Trump threatened severe punishment but resisted taking any action that might affect US arms sales.

On Ukraine one saw how far Trump was prepared to go to remain in power and how he deals with his competitors. A whistle-blower exposed that Trump using presidential powers to solicit foreign electoral intervention in the 2020 US presidential election. In this case it was the leader of Ukraine Volodymyr Zelensky, Trump blocked but later released payment of a congressionally mandated \$400 million military aid package to obtain damaging narratives about 2020 Democratic Party presidential candidate Joe Biden as well as information relating to Russian interference in the 2016 US elections. In October 2019, the House of Representatives began a formal impeachment inquiry into Trump.

Overseas Trump has praised authoritarian leaders while alienating allies and rattling the post WW2 liberal order. His relationship with the Russian President, Vladimir Putin, continues to haunt Trump, exemplified by a summit in Helsinki that led to cries of treason, even after Special Counsel Robert Mueller caught several criminals in Trump's orbit and has cast a long shadow over the White House.



President Trump has opted for reckless unilateralism to pull the US out of the Paris Climate Accords, renege on the Iranian nuclear deal, withdraw from the INF nuclear treaty and lay the basis for the deletion of the two-state solution between the Zionists and Palestinians. This has undermined American prestige and outraged global opinion. Equally, key international institutions acting under the tutelage of America have failed to provide leadership at times of acute crisis. The impotence of the US to halt the slaughter of Syrians at the hands of al-Assad has undermined America's global position.

**“Domestically Trumps rule is also in chaos much like his foreign policy, Trump is a polarising figure. Trump regularly practices partisan politics and brought to a halt a number of important pieces of legislation.”**

Disappointed with America's management of world affairs, allies too have taken stabs at America. President Macron of France warned, *“Europe can no longer rely on the US to provide its security”* and reiterated that Europe must guarantee its own security. Germany a committed lynchpin of American security on the continent expressed reservations about America's commitment to Europe. Merkel has talked at length about *“creating a real, true European army.”* Additionally, Europe's embroilment over trade relations with the US illustrates with great vigor the demise of transatlantic relationship. Even the once special relationship between Britain and America is on the rocks. Trump has attacked Prime Minister May over her criticisms against his far-right views, and he has vehemently derided May over Brexit.

The eruption of global protests against globalisation and liberal trade practices is another blow to America's global primacy. The tidal wave of unrest continues today in the form of Brexit, France's yellow vest movement, the rise of the far right in the West, the revolt of the masses in Algeria and Sudan. Dissatisfaction amongst the populations of the West and the global commons against America's world order is at an all-time high and is yet to reach a crescendo.

Domestically Trump's rule is also in chaos much like his foreign policy, Trump is a polarising figure. Trump regularly practices partisan politics and brought to a halt a number of important pieces of legislation. To circumvent the deadlock, President

Trump resorted to executive powers to get funding for his signature project—building of the wall along Mexico.

Trump also provokes questions of character, ethics and temperament. His White House has been a vortex of chaos with a record turnover of staff. He surrounded himself with ageing white men and members of his own family, inviting accusations of corruption. He drew moral equivalence between white nationalists and anti-fascist protesters after deadly violence in Charlottesville and Virginia, and appears to reserve particular venom for women and people of colour. He has attacked the media as “the enemy of the people” while chalking up thousands of false statements. His Twitter account brims with insults, lies, vulgarity and bad spelling.

The Neocons damaged the US global standing when its arrogantly pursued wars based on lies in order to further their own agenda of strengthening the US. Trump has taken this a step further by making all relations and policy transactional, he doesn't even hide this and prides himself on it. Values, ideals, ideology play no role in the Trump regime, these are mere luxuries.

The damage Trump is doing to the US is so deep that its will be difficult for the US to reverse this. Trump cares little about global perceptions of the US even amongst American allies. Trump's reversal of the nation's trade deals saw his arrogance on full display as he held world leaders hostage. What Trump's America has shown is that at a drop of a hat the US can abandon you and even treat you like an enemy, something the Kurds found out the hard way.

As much of the world celebrated the 30-year anniversary of the fall of the Berlin wall US soft power has never been weaker.



# CASE STUDY: Trumps Bluster Strategy

For all of Trump's over-the-top rhetoric—he would “*totally destroy North Korea*” and “*obliterate Iran*”—Trump is obviously gunshy. Since 2017, the president has significantly raised tensions with at least four such “rogue states”: Iran, North Korea, Venezuela and Syria. These crises have played out so similarly that there is practically a Trump crisis playbook. Pattern emergence is risky for a president who values unpredictability; opponents increasingly know what to expect.

A Trump war-crisis has the following elements:

**1. A difficult relationship is dramatically elevated into a major international crisis.** - In all four cases, there was no imminent threat of war from the US opponent. Relations were chilly, even hostile, but there was no extraordinary threat of these states attacking the US or its allies. Even in the Iran case, its actions against US allies in the Middle East have been mostly asymmetric and harassment rather than clear military threats. Trump then inflames the situation with dramatic threats

of conflict, sanctions, or even national destruction. Threats of intervention lead to major media coverage and the perception of a crisis or countdown to action.

**2. Outsized demands on opponents.** - Once a crisis begins with round-the-clock news coverage, the president puts forth extraordinary demands that almost guarantee intransigence from the rogue target. For example, the Trump administration expected North Korea to completely, verifiably, and irreversibly denuclearize. It had the same requirements for Iran. As for Venezuela, the administration pressured its leader to flee the country. Such demands naturally inflame a nationalist backlash and make diplomacy much harder—because the US appears to be requiring abject surrender in return for nothing.

**3. Splits emerge between Trump and his hawkish advisors.** - It should now be clear that Trump didn't want to launch a major war during his term. He worries about suffering the fate of George W. Bush and the



Iraq conflict. Yet Trump has curiously surrounded himself with fairly orthodox GOP hawks like H. R. McMaster or John Bolton. This has created crisis run-ups in which Trump uses provocative language, seemingly to goad the other side into striking first, coupled with conflicting language of diplomacy. The well-known chaos of the Trump White House is reflected in mixed messaging and confusion about what, if any, US red lines there are.

**4. Trump's ultimate demurral on the use of force.** - Trump's method seems to be to lead the opponent to the brink with extreme threats in the hope they will blink and offer concessions for nothing. Trump is left only with threats. But he now faces an obvious credibility problem: after threatening extreme force on four separate occasions but only launching one pinprick strike—in Syria in 2017—will future opponents believe Trump's war threats?



# Conclusion

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In systems where regular elections take place rulers are usually transitional in that they are unable to change the underlying direction of a nation. Presidents and Prime ministers in such systems are able to influence matters such as budgets and priorities and tactical issues, but as they need to get re-elected so are too busy with this then thinking about long-term strategy. This is usually left to elites (or establishments) in a nation or experts, civil servants or ministers who do not change based on the election cycle.

President Trump to some degree is the exception to this, but this has not been a good thing for the US. He believes he really is in charge of the US and runs it according to his instincts rather than deep thinking or long-term strategy. His obsession with himself and everything he does has caused the US to become the laughing stock of the world when it really needed a president who could lead the US through these stormy waters.

The US needs a leader who believes in US values and engages with the world based on this, rather than national interests which change before Trump completes every sentence. The damage Trump has done to American soft power will likely be unrepairable and with Trump likely to win another term its likely he will do more damage to US global prestige.

The US democratic system, constitution and legal system was meant to protect against such occurrences. It remains to be seen in 2020 and beyond if America's domestic turmoil catches up with its global position.

## 2020

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### **Domestic Political Polarisation**

For the US to be effective globally it needs a level of stability and unity domestically. But president Trump and many congressmen and women across the political spectrum continue to use their position to seek their own personal interests and with Trump becoming president he has gone into overdrive. Trump's impeachment is based upon him withholding US aid to a foreign leader to pressure him to provide dirt on his competitor. This is how low the US president is stooping. This polarisation will at some point lead to mismanagement of America's global position, especially when officials see their career position for themselves rather than for the nation. With 2020 being election year in the US and with a potential impeachment battle, the American system faces its most significant challenge.

### **Empire**

The US now faces the problem all empires do of having to be present in all places at the same time to maintain what it has colonised. Like the empires before it, the US uses its military, with a high readiness rate around the world to maintain its position. This all costs money, money that cannot then be used to fund education, infrastructure or health. Domestic taxes are insufficient to fund this so the US resorts to debt, which has created a \$22 trillion debt bubble! The Afghan war was meant to remove a ragtag, 7th century militia force, it is now an open ended battle with no end in sight. Its sole justification is now to maintain credibility rather than achieve any strategic ends. The US is living beyond its means, it is facing regional challenges across the world, which will stretch it. In 2020 and beyond this empire ending problem will have to be tackled.

### **The Future of US Alliances and Partnerships**

The Trump administration's policies are harming the alliances and friendships the US carefully developed over the decades and has been one of its greatest assets over the last 70 years. Trump's 'America first,' mantra has left a vacuum which China is quickly filling. For the nations of the world, the US is no longer the power it was prior to the Iraq and Afghan wars and with the US pulling out of multilateral organisations, China really does appear to be the more reliable partner, with huge spending power. Trump may truly be destroying the US, in order to save it. 18

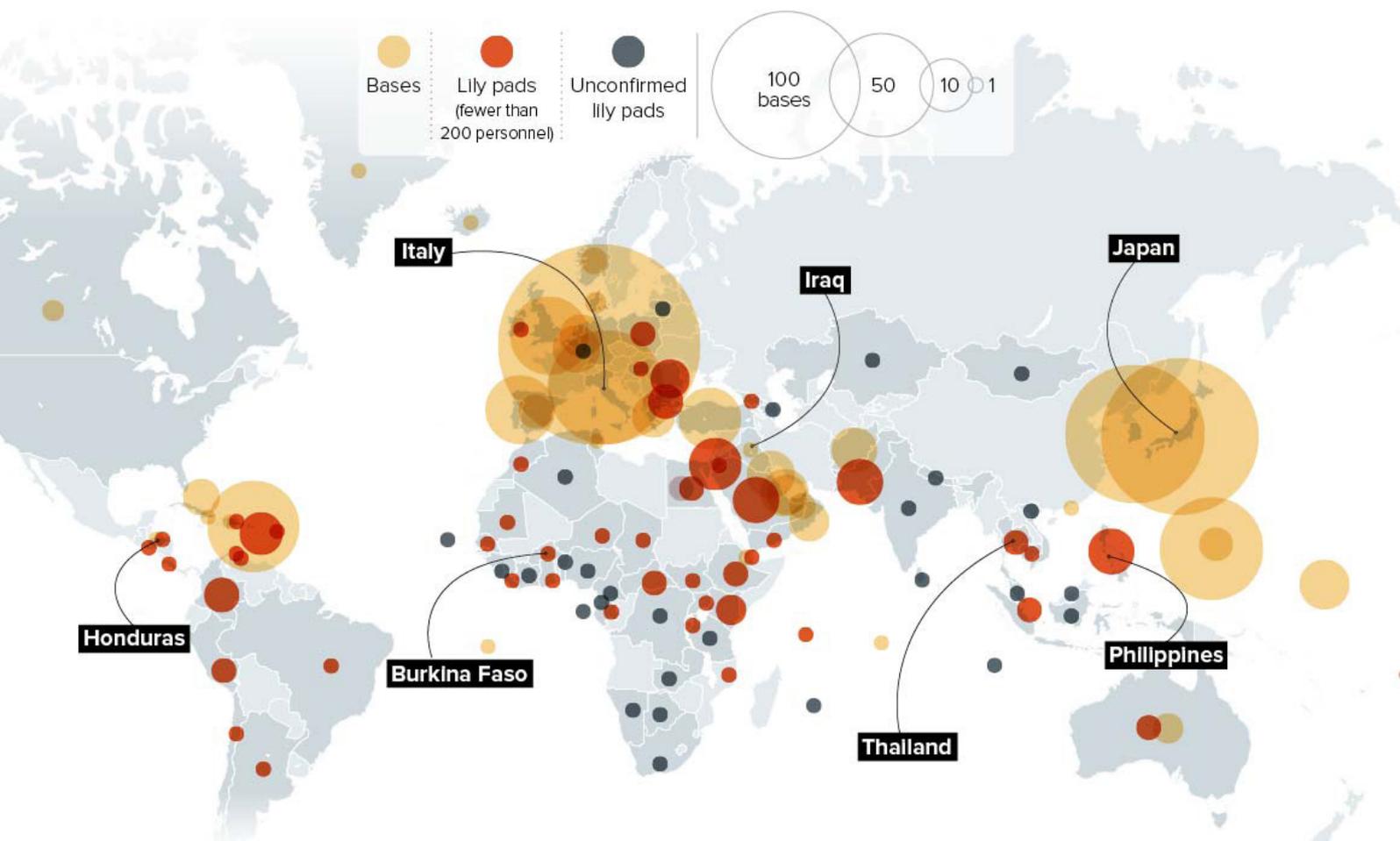
# CASE STUDY: The Problems of Empire

The US has resorted to the use of force to address international threats on numerous instances Barack Obama was the first president to argue that the use of force, particularly in the Middle East, was costly and ineffectual and that other means had to be used to exercise foreign policy. He ran his first campaign for president on this basis. He was only partially able to shift the direction of US strategy. Donald Trump has extended Obama's policy and applied it more consistently by refusing to strike at Iran over the Persian Gulf crisis and the Saudi oil facilities attack and in, withdrawing from the Syria-Turkey border.

In the 74 years since World War II ended, the US has spent around 28 years – nearly 38% of the time, engaged in large-scale combat, causing the deaths of over 90,000 US military personnel. This includes the Korean War, the Vietnam War, the Afghan War and the War in Iraq and there have been other deployments in smaller conflicts. Nearly three decades over a 74-year period is a staggering amount of time for any nation to be at war.

With the exception of Operation Desert Storm, the US has not won any of these wars. Korea ended in an armistice, with both sides at roughly the same point as when they began. Vietnam ended with the enemy flag flying over Saigon. Afghanistan, Iraq and the related wars did not end in outright defeat, but they have not ended in victory. Given that the United States crushed both Japan and, with the help of the Allies, Germany in World War II and emerged with overwhelming military power, the increased tempo of US military operations since 1945, combined with consistently unsatisfactory outcomes is a drain on any power.

The cost on the US financially and socially and the expense of maintaining a global empire is not just leading to people to question America's ability to maintain the global system, but at home its leading to debates about America's grand strategy.





***Russia is riding high as it undertook numerous political, economic and diplomatic actions in 2019. Many consider its actions across the Middle East, Africa, Afghanistan, Europe and in the US election in 2016 as signs of its return to global prominence. Its involvement in Syria has given it the global attention it for so long wanted. But internally Russia is suffering from numerous problems and challenges which make its external actions look hollow and raise the spectre that Russia is shouting much louder than it is capable.***



## The Russian Bear Roars?

Armed Russian military police were shown flying into a Syrian air base in northern Aleppo on 15 October 2019 after US President Donald Trump abruptly ordered the withdrawal of US troops from parts of Syria. Russia landed attack helicopters and troops at a sprawling air base in northern Syria vacated by US forces. The majority of Washington's foreign policy establishment see the evolving situation as a big win for Russia and a loss for the US. Al-Jazeera described Trump's withdrawal as: *"Trump's 'success' in Syria cedes region to Russia."*<sup>12</sup>

In September 2015 Russia entered into the Syrian theatre and many have seen this as Russia expanding its diplomatic, commercial and military reach in the Middle East. Russia tested new weaponry and moved a medium sized contingent of troops over 400 miles from Russia's border which Moscow promoted as strategic and tactical successes. By deploying a force of nearly 5,000 troops who engaged mostly in air support, advisory and special operations duties, Moscow is taking credit for stabilising Bashar al-Assad's reeling government and restoring his dominance against the country's rebels. This, in turn, secured Russia Syrian bases — which now include both a port and air bases — giving it access to a number of commercial interests in the country and enhanced the global perception of its military forces.

Russia extended its relationship with

Iran which it calls a partnership. It transformed a tense standoff with Turkey into a burgeoning relationship in Syria. Russia used these gains to start extensive negotiations over regional concerns, including talks to eliminate chemical weapons in Syria, at a time when the US and other Western powers were punishing Russia over its annexation of Crimea.

For the military, the intervention allowed the Russian armed forces to test new equipment like cruise missiles and new aircraft in combat, rotate a large majority of its officers into the theatre to accumulate war-zone experience, drum up more export markets after highlighting the performance of its weapons and experiment with the large-scale use of mercenary forces.

Russia achieved all of this with very few casualties and loss of equipment that the high command has begun talking about using the Syria experience as a model for a new framework of operations it dubs the *"strategy of limited action."*

***"Russia achieved all of this with very few casualties and loss of equipment that the high command has begun talking about using the Syria experience as a model for a new framework of operations it dubs the "strategy of limited action."***



# Russia Enters Contest for Africa

On 22nd October 2019 Russia hosted its first-ever pan-African summit in the city of Sochi. More than 40 African leaders were in attendance for the two-day event — many of whom hail from countries Russia has never had exceptionally close relationships with. In an interview, Russian President Vladimir Putin said: *“The two-day summit ... is an effort to revive former Cold War relations, when African regimes often allied with Moscow in the ideological contest with the US before the Soviet Union’s collapse, It’s “an unprecedented, benchmark event.”*<sup>3</sup>

The summit saw Russia striking business deals with some African leaders that included nuclear technology and mining. It has already set an amount worth \$190 billion for its investments in Africa. For the past few years, Moscow’s investments were limited into North Africa and it is clear from the summit that Moscow now wants to diversify its investments into other parts of Africa.

Moscow is investing in new military capabilities, including nuclear systems that remain the most significant existential threat to the US. Exporting arms into Africa is Russia’s attempt to interfere in the domestic political affairs of some African countries to win over some rulers who will advance her interests.

Moscow has been a notable provider of low cost, low sophistication weapons to Africa for nearly 60 years. During the Cold War, Russia supported various rebel groups and regimes across Africa in an attempt to compete with Western influence. This strategy also included directly supporting proxy wars against US and European-supported forces. Today, Russia’s direct involvement in Africa is nowhere near where it was during the Cold War era. But its political and economic relationships have survived in large part to the limited overturn of governance in many

African countries. The leaders or future leaders that the Soviet Union educated and trained all still hold significant influence in many of these countries and some, such as Angolan President Joao Lourenco, even remain in powerful positions to this day.

However, since the majority of African governments, if not all, are under the influence of Europe and the US and due to Russia’s political weakness compared to US and Europe this attempt is facing a major setback. Russia has a military presence in the Central African Republic, which is described as “strategically important” and a “buffer zone” between the Muslim north and Christian south. In Rwanda, which seems to have close ties with Russia in recent times, its cabinet has already signed a deal with Russia to establish a nuclear plant by 2024.

But Russia’s charm offensive in Africa will continue to lean heavily on its ties with former Soviet customers like Egypt. President Vladimir Putin co-hosted the Sochi summit with Egyptian President Abdel-Fattah el-Sisi, who also now heads the 55-member African Union. Unlike the Soviet days, however, Moscow can no longer rely on the wave of local Marxism and pan-Africanism that fuelled local support behind its Africa policy nearly 40 years ago. In the era of independence wars and postcolonial struggles, these political movements saw partnering with the Soviets as key to freeing their countries from Western colonial oppression. Such outspoken movements have since died out, though that hasn’t kept Russia from continuing to peddle the narrative of opposing Western imperialism in its pitches to African countries.

But Moscow’s ability to make inroads with Africa will be limited by its lack of the huge budget. Its tight budget will limit its ability to make inroads with new

African countries with money alone. Despite talk of \$190 billion for investment in Africa in the end deals of only \$12.5 billion were penned.

The context of Russia's move into Africa is due to the European Union and a number of countries, including the United States, Canada, Australia, Japan, Switzerland, New Zealand, Iceland and others imposing sanctions against Russia over the annexation of Crimea in 2015. The sanctions led to the shrinking of Russia's economy. The Africa summit was the latest and renewed efforts to salvage its sluggish economy.

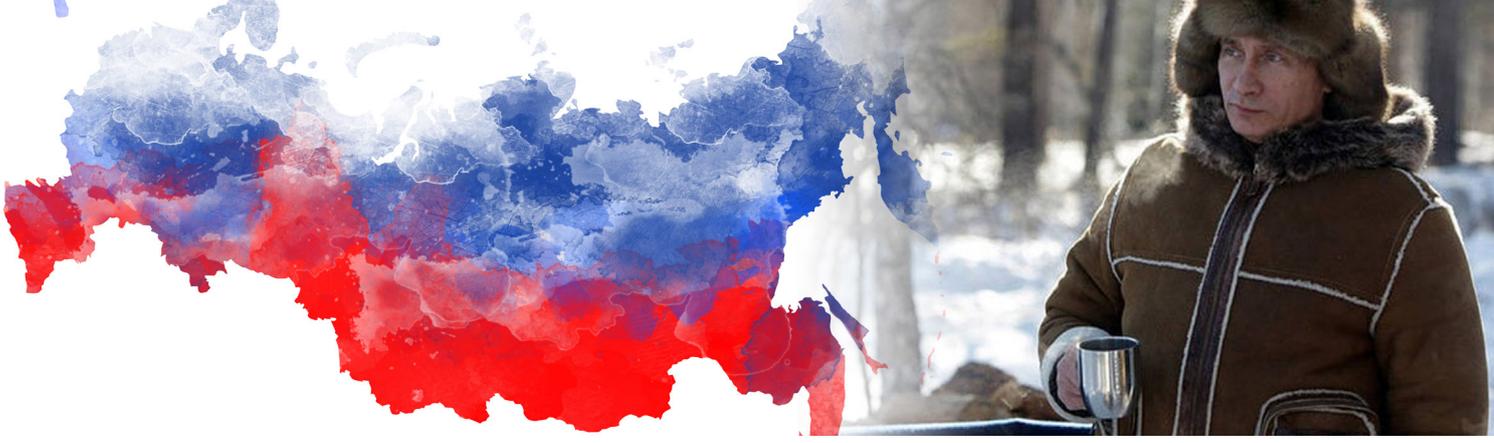
Russia's main challenge is that other major powers are already looting Africa's extractive resources through their so-called 'business development gatherings' such as US-Africa Business Forum, Forum on China-Africa Cooperation and Japan's Tokyo International Conference for African Development (TI-CAD). Despite Russia's exportation of food substances worth \$25 billion and arms worth \$1 billion to Africa, it is a drop in the ocean compared to China, which in its exchange of goods with Africa has made a profit of \$ 204 billion!

***“The context of Russia’s move into Africa is due to the European Union and a number of countries, including the United States, Canada, Australia, Japan, Switzerland, New Zealand, Iceland and others imposing sanctions against Russia over the annexation of Crimea in 2015. The sanctions led to the shrinking of Russia’s economy. The Africa summit was the latest and renewed efforts to salvage its sluggish economy.”***

**Documents leaked in 2018 detailed levels of cooperation Russia has with countries in Africa**

### Russia Ranks Cooperation in Africa





# Vladimir the Great

Vladimir Vladimirovich Putin has been in power since 1999 and for most of his time at the helm he has been a popular ruler. But in 2019 Putin's trust rating has fallen to its lowest point in 13 years. According to a poll conducted by the Russian Public Opinion Research Center, only 33% of Russians said they trusted the president. Whilst polls have proven to be unreliable recently but a survey like this in a country like Russia can be an indicator of deep discontent arising from significant social and economic problems.

Today's Russia is very different to the one Putin inherited in 1999. The Soviet Union collapsed in 1991 after decades of foreign priority over the domestic population. Long queues for goods, poverty and a thriving black market is what many Russians became accustomed to in the 1980's. The Politburo selected Mikhail Gorbachev to solve the country's problems. He promised openness and restructuring. But the openness only revealed the catastrophic condition of the economy and the restructuring, carried out by those who had created the disaster in the first place, didn't work.

Boris Yeltsin replaced Gorbachev but did little to solve the lingering economic problems. On 31 December 1999, Yeltsin issued a televised resignation speech and apologised to Russia's people for *"I want to apologise to you, I beg for your forgiveness for not making many of your and my dreams come true. What seemed simple to do proved to be excruciatingly difficult."*<sup>14</sup> His approval rating when leaving office was a mere 2%. During Yeltsin's reign economic output plummeted 45%.

This was the context when Putin was inaugurated in 2000 as Russia's president. Putin promised to make

Russia prosperous and respected in the world and he promised to do this by creating a modern economy. The Soviet Union used energy production as a key source of revenue throughout its existence. When Putin took power in the 21st century Russia remained highly dependent on the export of raw materials, particularly oil and natural gas. Putin couldn't control the price of these commodities, so Russia was always vulnerable to fluctuations in global supply and demand.

With a deteriorating country Putin decided to re-centralise the country, concentrating power in Moscow and distributing funds from the state budget to the regions. When oil prices were over \$100 per barrel, Putin made massive investments in new industries.

***"Putin promised to make Russia a modern and powerful nation. He has failed to deliver on the first point, and his forays in Syria and elsewhere haven't compensated for deteriorating economic conditions at home."***

But in 2014, oil prices plunged. Russia needs an oil price of \$88 a barrel to balance its budget. For every dollar drop below this breakeven price Russia loses \$1 billion. Although oil prices recovered after 2014 they remain low for Russia. Until 2018, Russia had two reserve funds, stocked with profits from the oil boom. But following the collapse in energy prices, one fund was depleted, and since January 2018, only the National Wealth Fund remains. To try to replenish the state budget, Putin decided to reform the pension system and signed an unpopular bill into law that will gradually raise the age of retirement for

women from 55 to 60 and for men from 60 to 65. Western sanctions are also now hurting the economy.

Putin promised to make Russia a modern and powerful nation. He has failed to deliver on the first point, and his forays in Syria and elsewhere haven't compensated for deteriorating economic conditions at home.

The classic Russian solution to such a problem is the empowering of the secret police to crush the opposition. It is debatable if the FSB, has the same power as the KGB. If oil prices remain low, sanctions remain in place, reserves continue to dwindle and the FSB is more interested in doing business than in sacrificing for the Russian state, then it's hard times ahead for Russia.

Can a foreign power come to Russia's aid? The problem here is, if there was such a nation it would demand too much and offer little. Russia's fantasy about an alliance with China falls apart as China's problems at the moment are even more intense. The Kremlin could try engaging in a war to boost morale, but there's the risk it could lose or that the conflict would last longer than those at the top anticipate.

Russia now faces conditions similar to those it faced in the 1980s: low oil prices and high defence costs. Russia is vast and needs a strong central government to hold it together, but central governments throughout Russia's history have not been good at managing economies.

# Russia's Geopolitics

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# The Quest for Economic Modernisation



An enduring theme of Russia's economic history since the time of Peter the Great has been a desire to catch up with the West. There have been periods of rapid progress towards that goal, such as during the late 19th century, after the abolition of serfdom, and again during the Stalin era. Yet these have invariably been followed by periods of stagnation and crisis that have seen the country lose ground again.

Under Putin, first as prime minister and then as president, between 1999 and 2008 Russia's economy grew from \$196 billion to \$1.7 trillion, making it Russia's best decade of economic growth ever. Healthy budget and trade surpluses enabled the government to amass large foreign exchange reserves totalling \$600 billion in 2008, in addition to a Stabilisation Fund that reached \$157 billion in the same year. The impact on living standards was equally impressive, with average monthly wages rising from \$62 in 1999 to \$696 in 2008. The proportion of Russians living below the poverty line fell from 24.6% in 2002 to 13.3% in 2007 and 10.7% in 2012.

This economic recovery gave rise to a palpable sense of national rebirth. In 2007, the humiliations of the 1990s were consigned to the past as the collapse in output was fully reversed and GDP surpassed Soviet levels for the first time. Russia passed another psychological milestone in 2007 by paying off the remaining \$22 billion of its Paris Club debt years

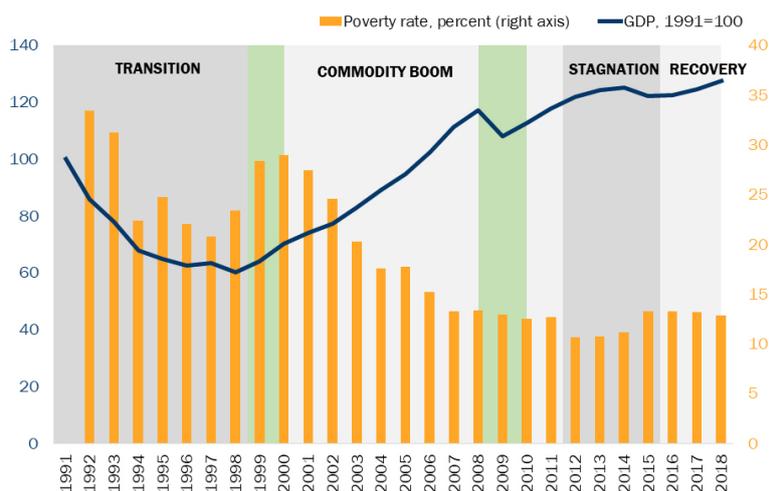
ahead of schedule.

But on closer inspection there was one main factor for this economic revival — the surge in the value of Russia's premier export commodities — oil and gas. The price of oil increased from \$10 per barrel in 1998 to a peak of more than \$140 in 2008, while the volume of Russian oil exports rose by 66% in the same period. Although the volume of gas exports remained largely static, their value rose by approximately one-fifth because gas prices are linked to oil. As a result, total annual earnings from energy increased from \$28 billion to \$310 billion in the decade prior to the 2008 crash. According to RAND, this windfall accounted for an estimated 68% of the rise in GDP between 1999 and 2008.

A number of attempts have been undertaken to reform and modernise Russia's economy. In 2000 Putin launched the Gref plan (Programme for the Socio-Economic Development of the Russian Federation for the Period 2000-2010), named after the then economics minister and then Sberbank CEO German Gref. But the plan was abandoned when the 2008 crisis struck when it was only 30% complete.

When Dmitry Medvedev took over as president in 2008 he went on to publish a personal manifesto in 2009 and lamented Russia's 'primitive economy' and its 'humiliating dependence on raw materials.' His solution was a modernisation programme intended to turn Russia into a centre of high-tech innovation and a net exporter of technology. The centrepiece of Medvedev's modernisation plan was the Skolkovo Innovation Centre, a technology hub built on the outskirts of Moscow, touted as Russia's answer to Silicon Valley. Built at a cost of \$4 billion, Skolkovo was designed to attract foreign investors, high-tech businesses and new start-ups and was anticipated to employ 50,000 people on site by 2020. The idea was to build on Russia's strong scientific base by turning technological invention into commercial innovation. There was early success, signing investment deals

## Poverty in Russia



with prestigious foreign partners such as Cisco and the Massachusetts Institute of Technology (MIT), while hundreds of domestic companies took up residence.

The return of Vladimir Putin to the presidency in 2012 marked a change in fortunes as Skolkovo faced deep budget cuts, pressure from anti-corruption investigators, new restrictions on internet freedom and fallout from the conflict in Ukraine. The result was a brain drain that saw skilled workers and Russian tech companies looking to locate abroad.

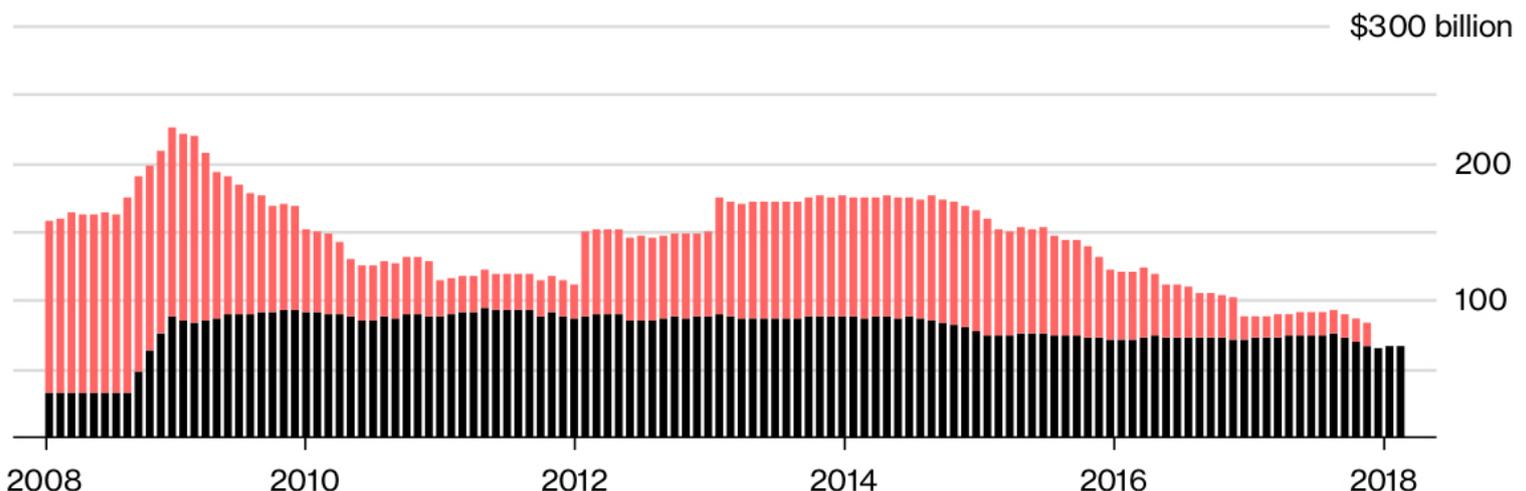
In January 2011, Putin instructed the Higher School of Economics and the Presidential Academy of National Economy and Public Administration to create a new Strategy 2020, which resulted in the so-called first round of the May Decrees in 2012. The result of the first round of May Decrees did little to reverse the slide into stagnation, so they were replaced with a new round of May Decrees in 2018 that have been augmented with the 12 national projects that are the latest version of the plan to transform Russia's economy.

Russia made no significant progress towards the targets set out in the 2020 strategy. Instead of posting annual growth rates of 6%, the economy has remained essentially static since 2008. If anything, Russia has become even more dependent on the production and export of raw materials than before. Oil and gas made up around 50% of the Soviet Union's export earnings and it still accounts for over 60% today. It doesn't help that the size of Russia's hidden economy is estimated to be 34%.

***“Russia made no significant progress towards the targets set out in the 2020 strategy . If anything, Russia has become even more dependent on the production and export of raw materials than before. Oil and gas made up around 50% of the Soviet Union’s export earnings and it still accounts for over 60% today”***

## **Russia's Sovereign Wealth Funds**

■ Wellbeing Fund ■ Reserve Fund





# CASE STUDY: Russia & Hope

Three decades ago the Soviet Union fell because things stopped working. The state was the centre of society and managed the economy. After Stalin died, there was a sense of hope in Russian society about the economy – and that hope sustained the government, even when it failed to meet expectations. But by the 1980s, ordinary Russians’ belief that they could provide for their families and that the gulf between them and the bureaucratic elite would diminish had faded. What changed their minds was the lack of hope. They had little and were not going to get more. Worst of all, they lacked hope for their children.

This situation was a result of a number of factors.

First, the inherent inefficiency of the Soviet apparatus, which could not build a modern economy. Second, the divergence of available goods, not only to the elite but also to a thriving black market that frequently operated in foreign currencies, which most Russians lacked. Third, the decline of oil prices, which shattered the state budget. A surge in defence spending, designed to both match US spending and convince Russians that although they might be poor, they still lived in a powerful country. This was not trivial for a nation that had lived through the Nazi invasion.

In 1991, when the Soviet Union collapsed, there was no revolution. There was simply exhaustion. The elite were exhausted from trying to push the boulder of the Soviet economy and society up a steep hill. People were exhausted from standing in lines for hours to buy basic necessities. The general sense of failure was apparent not only in faraway capitals but

in Russians’ own lives.

The Politburo selected Mikhail Gorbachev to solve these problems. He promised openness and restructuring. But the openness only revealed the catastrophic condition of the economy, and the restructuring, carried out by those who had created the disaster in the first place, didn’t work. All Gorbachev did was legitimise the fears and fatigue that had festered in the Soviet Union and allow them to eat away at what was left.

Boris Yeltsin replaced him but did nothing to solve the lingering economic problems. The Soviet Union was gone, and many took advantage – from Western financiers, consultants and hustlers, to Russians who figured out, frequently with Western advisers, how to divert and appropriate what little wealth Russia had. Privatisation requires some concept of the private. In a country that had lived for generations by the old socialist principle “money is theft,” the oligarchs embraced the concept with a vengeance. Russia’s bureaucratic elite was just as inefficient as the Soviet Union’s.

Yeltsin couldn’t last. His replacement was Vladimir Putin, who had roots in the old Soviet Union and in the new Russia. He had been an agent of the KGB, the Soviets’ main security service. With his time as deputy to the mayor of St. Petersburg, he was enmeshed with the oligarchs who became the holders of Russia’s wealth. Putin came to power because of these connections. After Yeltsin, Russians craved a strong leader, and they drew comfort from the fact that Putin had ties to the KGB. They accepted his links to the oligarchs as simply part of how the world works.

# Lofty Military Ambitions



Putin promised to make Russia great again when he became president in 2000. For Russia, strength is from military might and this practically means Russia's defence industry is critical if the country is to project itself as a military power.

The decade after the collapse of the Soviet Union led to economic and financial chaos leading to the deterioration of arms and equipment due to inadequate servicing. Up to 90% of this equipment has not been maintained or can no longer be used. Russian ground forces have very large stockpiles of material left from the Soviet Union. This equipment however was not well-maintained and required significant upgrades.

Due to this and especially since Putin took power in 2000, the Kremlin has been striving to modernise all branches of the military, but the country's defence industry is struggling with decreasing volumes of orders, difficulties in attracting high-skilled talent and limits to its technological capabilities. The performance of Russia's aerospace sector has been declining, in 2018, Russian aircraft and spacecraft makers produced 13.5% less than in 2017. In 2019 in the first two months of the year, aerospace output plummeted 48% year on year.

This dire picture stands in contrast to Russia's frequent presentation of sensational new platforms. In reality, however, just a few of the big-ticket weapon systems — such as the T-14 main battle tank or the Su-57 fighter aircraft — find buyers, as the rest remain mere prototypes. Russia has prioritised some hardware, such as the Sarmat intercontinental ballistic missile, due to their strategic relevance to the country's overall military posture, but Moscow has failed to fully develop other programmes or only introduced them on a limited scale.

Under pressure from a limited government budget, the Kremlin even started reducing its military spending in 2017 — a strong indicator that, despite the

modernisation push, Russia's financial challenges are taking a toll on the country's ambitions. Economically, the plunge in oil prices at the end of 2014 hurt Russia's bottom line, depriving the country of essential revenue and forcing it to dip into its reserves to bridge the gap. Today, more than four years on, Russian oil revenues are rising, yet the country is continuing to deal with the consequences of the lean years. Beyond that, low revenues from taxes, which have forced Russia to raise taxes and the retirement age, and Western sanctions over Moscow's activities in Ukraine and elsewhere, have shrunk the financial pool available to military planners.

In the past, Russia has benefited from its position as a major global arms exporter to fuel further mili-

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tary development. During the 1990s, for example, such sales were critical to the country as it faced severe economic hardship. While Russia remains the world's second-largest arms exporter the actual value of those exports has been decreasing significantly. Between 2014 and 2018, their total value dropped by 17%. In the past, Russia frequently used arms exports as a political tool, offering weapons at a heavy discount, if not entirely free. But with Russia no longer able to offer customers a good deal on its fighter jets and other defence products, the country is

losing business. Russia has long dominated some of the market by offering affordable military equipment without attaching any conditions regarding human rights, but the rise of China's military industry, as well as several smaller producers around the world, has made it much more difficult to compete for contracts.

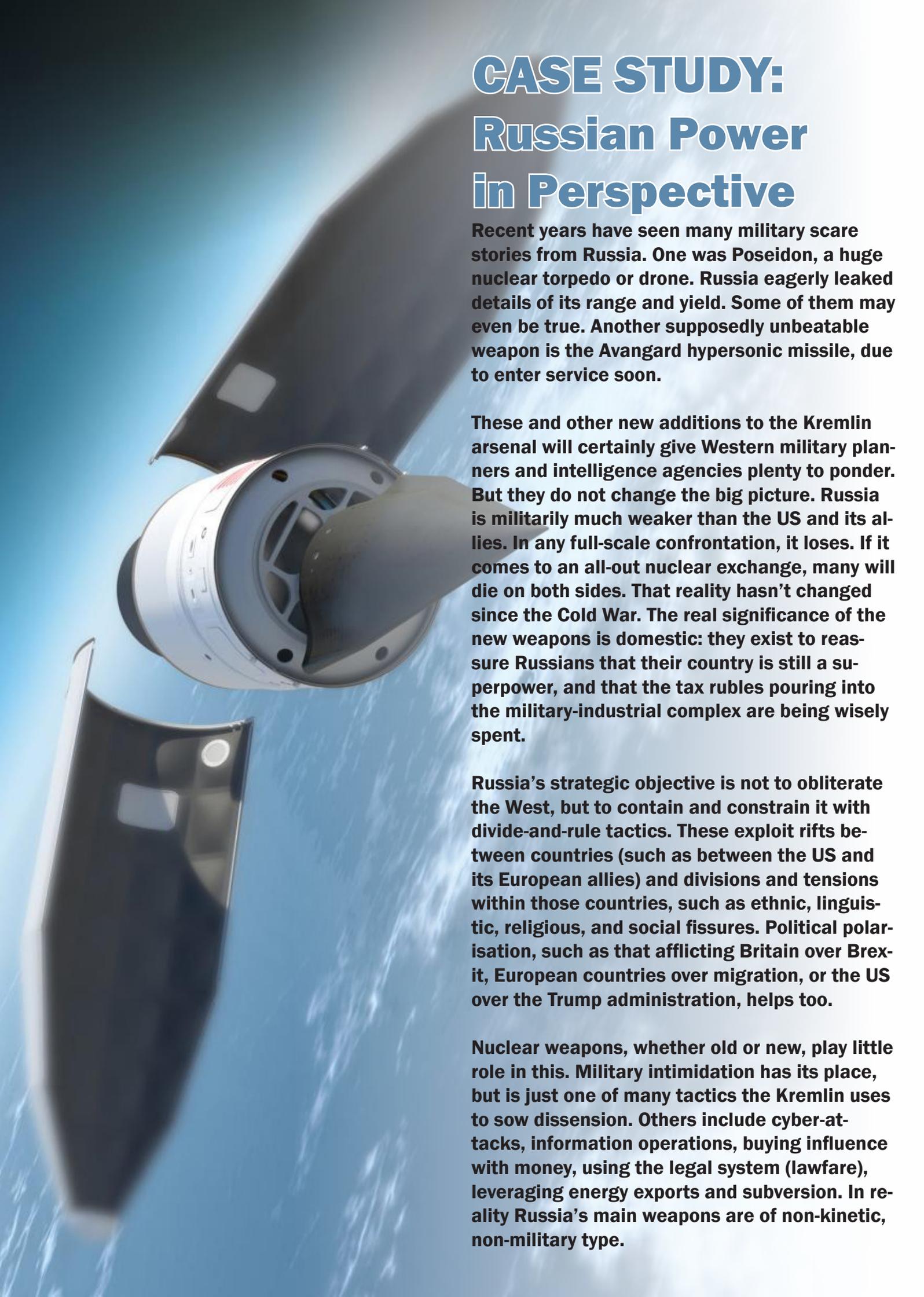
Ultimately, the loss of export opportunities not only complicates Russia's efforts to finance its defence industry, it also reduces the scale at which the defence industry produces, which, in turn, decreases scale-dependent savings that accompany higher levels of production. In effect, this means that the more Russia fails to find foreign customers for specific weapon systems, the more it will become burdened with a higher relative cost per unit as it seeks to meet its own needs. The conundrum, in turn, will further limit Russia's ability to competitively price weapons systems for export, thereby perpetuating the effect.

***“In its attempts to become a power Russia has lofty ambitions for the modernisation of its military. But budget constraints, competition and a host of other issues mean many of the army's most flamboyant projects never make it past the showroom.”***

This is why India's withdrawal from the joint development and production of the Su-57 fighter aircraft in 2018 cast doubt on Russia's ability to sustain the programme in a meaningful way or at an acceptable cost. As a result, Russia has sought — albeit unsuccessfully so far — to export the Su-57 more widely in an effort to find a partnership that would make the aircraft viable.

In its attempts to become a power Russia has lofty ambitions for the modernisation of its military. But budget constraints, competition and a host of other issues mean many of the army's most flamboyant projects never make it past the showroom. Russia's defence industry's plight is unlikely to improve as it faces a vicious circle that is leaving it worse for wear.





# **CASE STUDY:** **Russian Power** **in Perspective**

Recent years have seen many military scare stories from Russia. One was Poseidon, a huge nuclear torpedo or drone. Russia eagerly leaked details of its range and yield. Some of them may even be true. Another supposedly unbeatable weapon is the Avangard hypersonic missile, due to enter service soon.

These and other new additions to the Kremlin arsenal will certainly give Western military planners and intelligence agencies plenty to ponder. But they do not change the big picture. Russia is militarily much weaker than the US and its allies. In any full-scale confrontation, it loses. If it comes to an all-out nuclear exchange, many will die on both sides. That reality hasn't changed since the Cold War. The real significance of the new weapons is domestic: they exist to reassure Russians that their country is still a superpower, and that the tax rubles pouring into the military-industrial complex are being wisely spent.

Russia's strategic objective is not to obliterate the West, but to contain and constrain it with divide-and-rule tactics. These exploit rifts between countries (such as between the US and its European allies) and divisions and tensions within those countries, such as ethnic, linguistic, religious, and social fissures. Political polarisation, such as that afflicting Britain over Brexit, European countries over migration, or the US over the Trump administration, helps too.

Nuclear weapons, whether old or new, play little role in this. Military intimidation has its place, but is just one of many tactics the Kremlin uses to sow dissension. Others include cyber-attacks, information operations, buying influence with money, using the legal system (lawfare), leveraging energy exports and subversion. In reality Russia's main weapons are of non-kinetic, non-military type.

# Ukraine: 5 Years



- The law on special status comes into force on a temporary basis at 20:00 hrs local time on the day of elections
- The law becomes permanent after the OSCE international security organisation verifies that the elections were free and fair, and in compliance with Ukrainian law.

The conflict between Ukraine and Russia began in 2014 and is now five years old. It began with the fall of Victor Yanukovich and then the annexation of the Crimea, including the key naval base at Sevastopol. By April 2014 pro-Russian elements raised the flag of insurrection in eastern Ukraine, with covert help from Russia. Since then, the hot war has killed an estimated 14,000 people.

In 2019 millions of Ukrainians wanted to get rid of what they saw as corrupt political elites, and they put their faith in a 41-year-old comedian-turned-politician who offered a route to peace after more than five years of fighting. President Zelensky was still riding high in opinion polls in Ukraine, six months after he thrashed incumbent Petro Poroshenko with more than 73% of the vote.

In June 2019, Ukrainian troops and separatists withdrew a kilometre from the frontline town of Stanysia Luhanska. The following month, work began to restore the destroyed bridge in the town – a key crossing used every day by thousands of people on both sides of the line of separation. Then in September 2019, a long-awaited delayed prisoner swap with Russia was finally completed. On 1 October 2019, Ukraine, Russia and the separatists agreed the deal to bring special status to the separatist-held parts of Donetsk and Luhansk regions.

Then, after several false starts, Ukrainian troops and Russian-backed separatists began to disengage from the frontline town of Zolote on 29 October 2019.

There have been different interpretations of the so-called Steinmeier formula by Moscow and Kiev, but Russian media have published what they said was the text of the deal for a vote in the east followed by self-governing status.

They say the plan envisages that:

These were Moscow's key precondition for a summit of the leaders of Ukraine, Russia, France and Germany - known as the Normandy format on 9 December 2019.

This was a major achievement on the part of Russia as it in reality amounts to a surrender to Russia. The nationalists in Ukraine were unconvinced by President Zelensky's promises to safeguard Ukraine's interests and not to cross his "red lines," set out in an urgent news briefing after the deal was signed: There must be a full ceasefire before any elections are held in the east.

More than five years later, the war continues on a low intensity basis. The separatists have not been defeated, but Putin's backing has driven a wedge between most Ukrainians and Russia that will take generations, perhaps, to heal. The US and other countries, imposed sanctions on Russia, which remain in place, for grabbing Crimea. Under President Obama, the United States provided Ukraine with a limited amount of military material and training. President Trump's delay of about \$400 million in military assistance in the summer is at the heart of the impeachment inquiry. But the Trump administration also approved for the first time the sale of Javelin anti tank missiles to the Ukrainians. Russia has officially turned this conflict into a frozen one and with the US busy with more pressing issues this is a major victory for Russia in 2019.



# Conclusion

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Russia now faces a challenge that it has faced a few times in its history. It has global ambitions and the Russian people believe Russia is a power and should be treated with respect around the world. But this ambition is not matched with capability and once again adventures abroad are attempting to conceal problems domestically. In previous strategic estimates we highlighted much of Russia's actions abroad are not based on strength at home but based upon deflecting from challenges at home.

Russia has been shouting much louder than it is capable and presented itself as a global power. But its key strategic regions are all its former Soviet republics which all are looking towards the west. Russia has been able to maintain influence in some of these nations, whilst in others its looking to gain influence. The global superpower is forced to take Russia into account to achieve its interests and as a result Russia remains a power, although its influence is largely regional, rather than global. Russia is a power, just not like the one it was before, and this means it has a seat at the table of global issues.

## 2020

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### *Arctic Ambitions Stalling*

Since planting its flag on the seafloor at the North Pole in 2007, Moscow reinforced its territorial claims in the Arctic by increasing its military presence and bolstering its icebreaker fleet. But Russia's progress in making use of the Arctic's mineral and hydrocarbon resources and unlocking the rest of the region's economic potential is stalling.

The lack of sufficient ports, railroads, electricity grids, airports and more in the Arctic has significantly increased the cost of individual projects at a time when the government is facing budgetary constraints and popular opposition to rising taxes. The arctic was one new area where Russia was looking to get the first spoils, therefore in 2020 it will have to find other ways of bringing the region within its sphere of interest.

### *US Elections 2020*

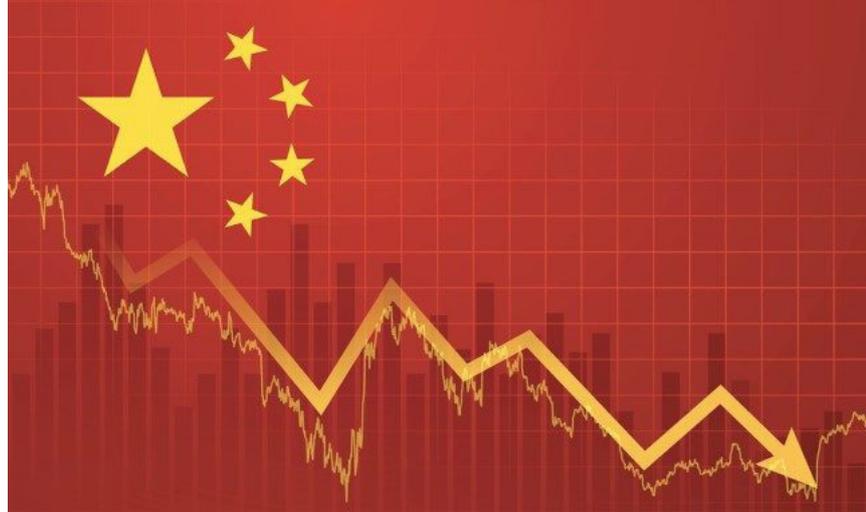
Whilst Russia lacks the capability to go directly up against the US, what it has developed is its indirect strategies of misinformation, cyber-attacks and causing mischief. Russia's hacking of Democratic Party emails in 2016 has led many to still consider it was Russia who got Trump into office. The US will be going to the polls again in 2020, giving Russia another opportunity to cause chaos, especially with the US political scene highly polarised.



# CHINA

*China celebrated two major achievements in 2019, in January it landed a probe, Chang'e on the dark side of the moon, the first nation ever to achieve this feat by overcoming the technical challenges. It was also the 40th anniversary of the nation's open and reform era, which is probably the greatest economic growth experiment in history. But 2019 has seen the convergence of a number of challenges for China that it is struggling to deal with. The country is in a trade war with its most important customer – the US, its economic restructuring has halted, its flagship project – the BRI has garnered significant negative publicity and Hong Kong has now erupted. China will have to overcome these all if it wishes to be a global power.*

# Economic Troubles Ahead



Chinese authorities published the country's GDP figures in October 2019 and they presented a dim picture of an economy that relatively recently was achieving double digit growth. China's economic growth slowed to 6% in the third quarter of 2019, its lowest quarterly growth rate since 1992! China has tried various strategies from increasing domestic consumption to moving up the value added chain but its growth rate continues to shrink.

China grew rapidly from 1979 to well into the 2000s. This was achieved with production and investment powered by the country's integration into regional cross-border production networks. In 2002, China became the world's biggest recipient of foreign direct investment (FDI) and by 2009 it had overtaken Germany to become the world's biggest exporter. But the Great Recession from 2008 led to a decline in world trade, creating a major problem

to the country's export-oriented growth strategy.

The government attempted to counter the effects of declining external demand with a major investment programme financed by massive money creation and low interest rates. Investment as a share of GDP rose to an all-time high of 48% by 2012 and it remains at over 44% of GDP today.

But, despite the government's efforts, growth steadily declined, from 10.6% in 2010 to 6.7% in 2016, before registering an increase of 6.9% in 2017. In 2018 economic growth further declined to 6.5% and in 2019 it has fallen below 6%. The Chinese government continued to pursue a high growth strategy by promoting a massive state-supported construction boom. New roads, railways, airports, shopping centres and apartment complexes were built.

Such a big construction

push has left the country with excess facilities and infrastructure, highlighted by a growing number of ghost towns. This building boom was financed by a rapid increase in debt, creating repayment concerns. Corporate debt in particular soared, local government and household debt also grew substantially. The boom also caused several industries to dramatically increase their scale of production, creating serious overcapacity problems. Nine traditional industries in China were the most severely exposed to the excess capacity problem: steel, cement, plate glass, electrolytic aluminium, coal, ship-building, solar energy, wind energy and petrochemical. All of these nine sectors are related to energy, infrastructure construction and real estate development. These problems led to huge capital flight forcing the central bank to spend \$1 trillion of its foreign exchange reserves to defend the exchange rate.

China's leaders were not blind to the mounting economic difficulties. Limits to domestic construction were apparent, as was the danger that unused buildings and factories coupled with excess capacity in key industries could easily trigger widespread defaults. The Chinese party leadership chose a new strategy, one that sought to maintain the existing growth process by expanding it beyond China's national borders:

## Chinese slowdown



it's One Belt and One Road Initiative (OBOR).

One Belt One Road (OBOR), as it was known at the time, was conceived before Xi Jinping was elected President by the National People's Congress in 2013. Soon after his election, he announced his support for OBOR. But it was not until 2015, after consultations between various commissions and ministries, that an action plan was published and China aggressively moved forward with the initiative. This initiative did not come out of the blue but is a direct result of challenges stemming from China's growth model.

Now known as the Belt and Road Initiative (BRI), its aim was to link China with 70 other countries across Asia, Africa, Europe and Oceania. The two parts to the initial BRI vision: The "Belt", which seeks to recreate the old Silk Road land trade route, and the "Road," which is not actually a road, but a series of ports creating a sea-based trade route spanning several oceans. The initiative was to be given form through a number of separate but linked investments in large-scale gas and oil pipelines, roads, railroads and ports as well as connecting "economic corridors." There is no official BRI map, what we have are illustrations by everyone, apart from Chinese officials.

The reason for no official BRI map is that the initiative has continued to evolve. In addition to infrastructure it now includes efforts at "financial integration," "cooperation in science and technology," "cultural and academic exchanges," and the establishment of trade "cooperation mechanisms"; its geographic focus has also expanded. In September 2018, Venezuela announced that the country "will now join China's ambitious New Silk Road commer-

cial plan which is allegedly worth \$900 billion."

***"The BRI in reality represents an attempt to solve China's problems of overcapacity and surplus capital, declining trade opportunities, growing debt and falling rates of profit through a geographic expansion of China's economic activity and processes."***

The BRI in reality represents an attempt to solve China's problems of overcapacity and surplus capital, declining trade opportunities, growing debt and falling rates of profit through a geographic expansion of China's economic activity and processes.

The attempt to increase domestic consumption has been challenging for the regime because despite China's colossal growth over the past decades, most Chinese remained poor, so are not able to consume a lot of what comes of China's production lines. China is too poor to substitute for American and European demand and attempts to finance domestic consumption led to a serious financial crisis. The attempt to shift from low-value goods to high-tech items, competing with Europe, the US, Japan, South Korea and other well-established high-tech economies has proved difficult.

Now that China is in a trade war with its biggest customer the future does not bode well for China's economy, which it is already feeling the effects of the US imposed tariffs on Chinese exports.

China has rushed to generate projects, many of which are not financially viable. The European railway projects are illustrative of this. Chongqing-Duisburg, Yiwu-London, Yiwu-Madrid, Zheng-

zhou-Hamburg, Suzhou-Warsaw and Xi'an-Budapest are among the more than 40 routes that now

connect China with Europe. Yet out of all these, only Chongqing-Duisburg, connecting China with Germany, was created out of a genuine commercial need. The other routes are political creations by Beijing. The Euro-China railways arrive in Europe full of laptops and other gadgets, the containers on the new routes come to Europe full of low-tech Chinese products—but they leave empty, as there's little worth transporting by rail that Chinese consumers want. With only half the route effectively being used, the whole trip often loses money. Today, most of the BRI's rail routes function only thanks to Chinese government subsidies.

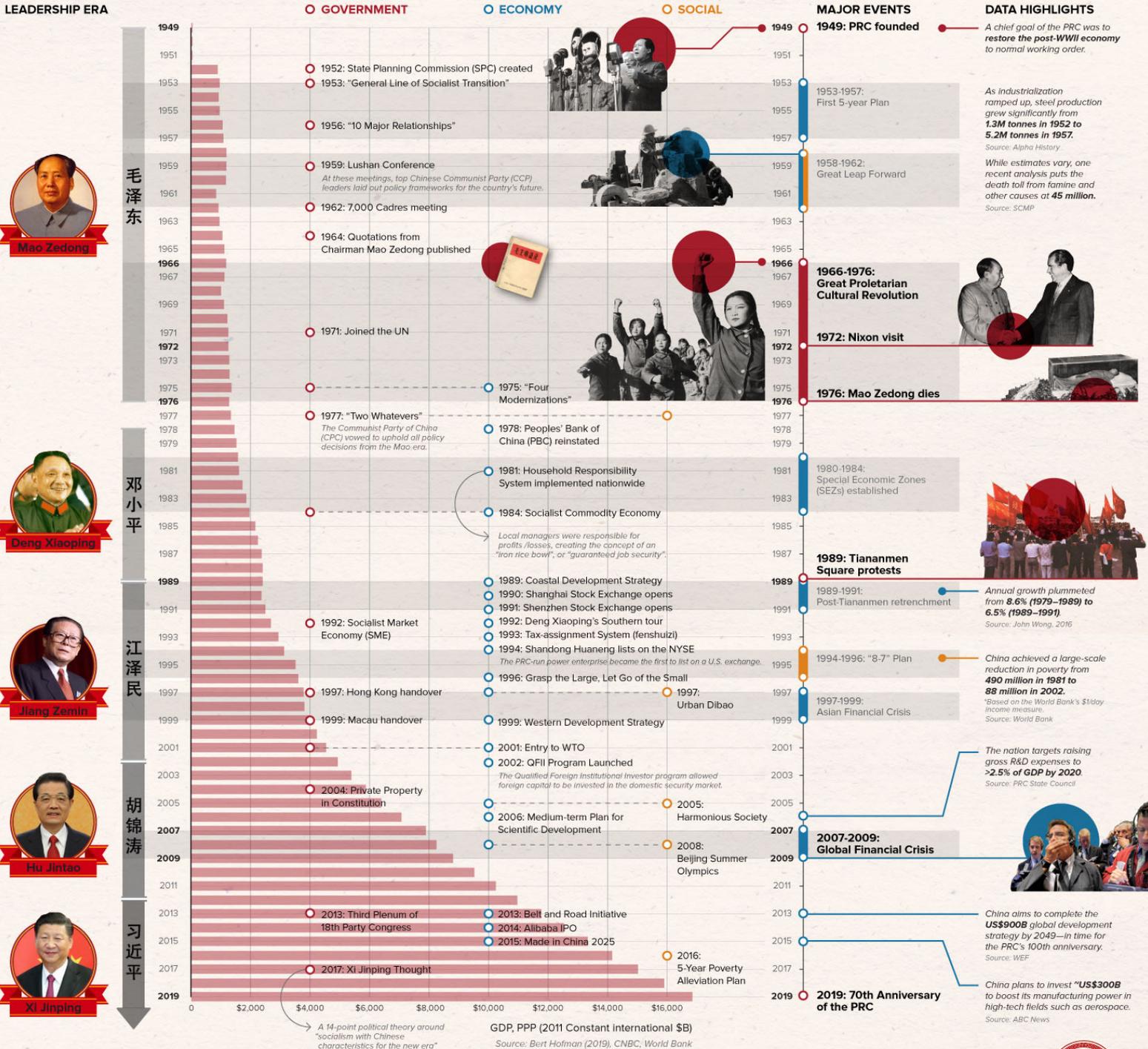
A growing number of countries are becoming reluctant to participate because it means they will have to borrow funds for projects that may or may not benefit the country or generate the foreign exchange necessary to repay the loans.



# 70 YEARS OF ECONOMIC DEVELOPMENT AND POLICY IN THE PEOPLE'S REPUBLIC OF CHINA

October 1, 1949 marked the founding of the Peoples' Republic of China (PRC). Below is an abridged list of events and policies that influenced the country's transformation to a global superpower.

## LEADERSHIP ERA



## Belt and Road (BRI): 6 Years on

The BRI was launched in Kazakhstan and Indonesia in 2013. Speaking about the initiative in 2014, Chinese President Xi Jinping, said: *“First, we should focus on Asian countries and realise connectivity in Asia first. The Belt and Road both trace their origins to Asia ... It is natural that we focus our attention on connectivity between Asian countries and strive to expand our common interest.”*

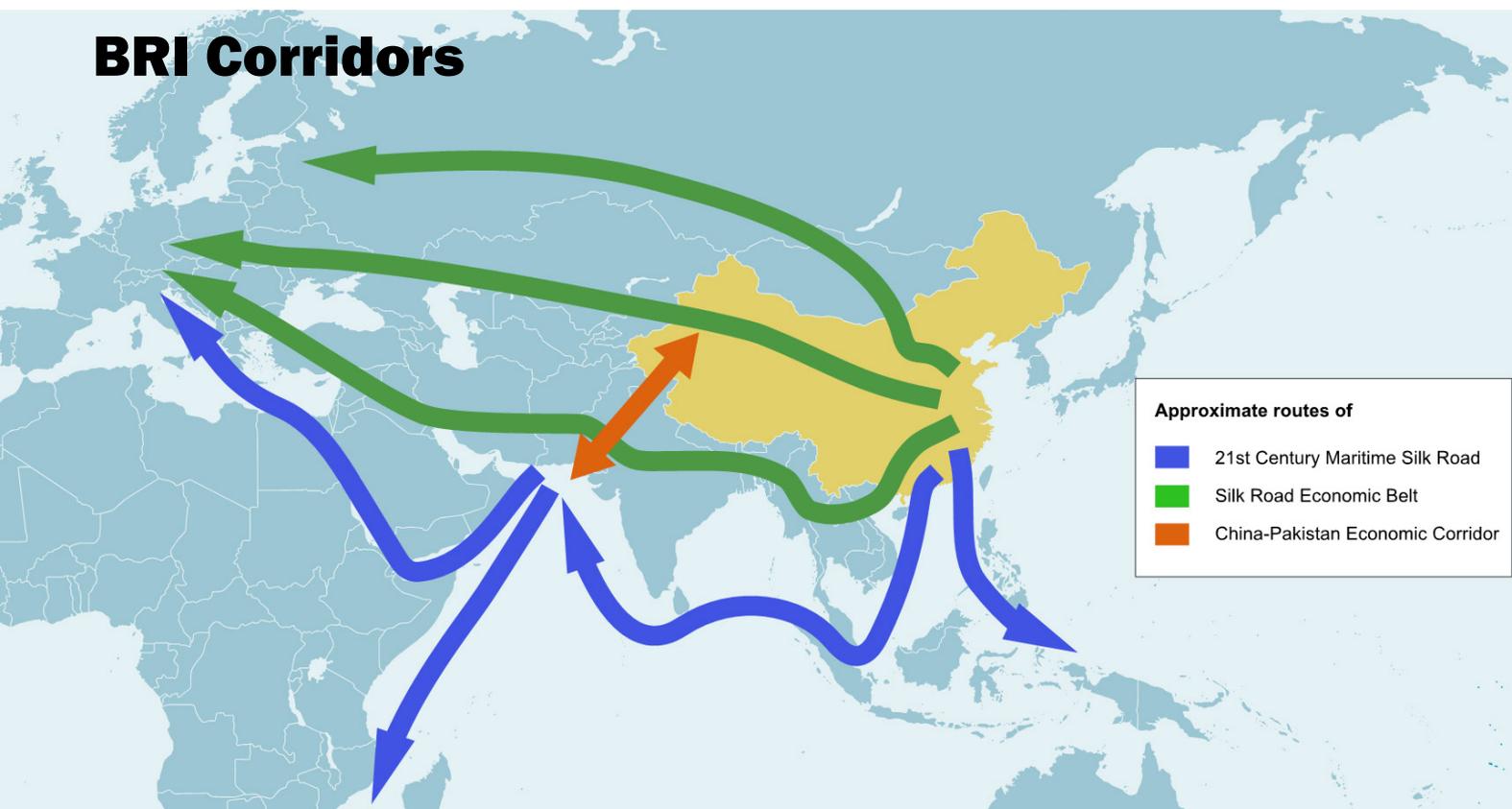
Under President Xi’s infrastructure development and investment programmes have extended beyond Asia to the Middle East, Europe, Africa, the Americas and even the arctic. Dubbed the Chinese Marshal Plan, so far, 126 countries and 29 international organisations have signed cooperation agreements with China on jointly building the Belt and Road. 173 cooperation documents have taken place with BRI partners, which include currency swap agreements with 20 countries along the BRI with clearing arrangements with seven countries. The China-Europe freight trains, connecting China with 50 cities in 15 European countries, had completed more than 14,000 trips by the end of March 2019.

Chinese trade with countries along the BRI corridors is growing fast; it exceeded \$6 trillion between 2014 and 2019. Between 2013 and 2017, China’s total trade with BRI members grew faster than its overall international trade. China’s investment in countries that have signed up to the initiative as of 2019 is estimated at \$200 billion.

The BRI is actively seeking alignment with other national or regional development plans, including African Union’s Agenda 2063, Russia’s Eurasian Economic Union, Italy’s InvestItalia programme, Saudi Arabia’s Saudi Vision 2030, Kyrgyzstan’s 2040 National Sustainable Development Strategy, and Mongolia’s Development Road programme, among others.

The largest BRI project so far is the China-Pakistan Economic Corridor (CPEC), which links Kashgar in Xinjiang province with the Port of Gwadar in Pakistan. To date, BRI investments and construction contracts worth almost \$40 billion have been made in Pakistan. Though investment of this scale promised to help transform the Pakistan economy, it has also exacerbated existing strains in the economy. Indeed, the large increase in imports of materials and capital goods required for BRI projects has added to Pakistan’s already bloated import bill. The current account deficit has widened to more than 6% of GDP from less than 2% in 2016. Meanwhile, foreign currency reserves are depleted, the currency has been devalued on multiple occasions since December 2017, inflation is at multi year highs, and the country was forced to agree to a \$6 billion International Monetary Fund (IMF) bailout, the second for Pakistan since 2013. Pakistan’s troubles are not entirely attributable to the BRI, but the added strains from BRI-related projects have not helped. Under the circumstances, a number of countries, such as Pakistan, Myanmar, Maldives and Nepal, are reconsidering the terms of their BRI participation. Malaysia Prime Minister Mahathir Mohamad cited worries about sovereignty, as well as unfavourable contract terms.

## BRI Corridors



# Debt Traps

China's BRI has received significant media attention due to the amount of debt member nations are taking on and due to Sri Lanka effectively defaulting on its debt repayments and then having to give up its port to China.

BRI is being accused of being a debt trap due to Chinese loans. This criticism has revolved around speculation such as China's "neo-colonialism" and alleged "predatory" debt practices. For instance, China has been accused of seizing already built infrastructure or captured host countries' resources for unpaid debt.

These allegations have impacted China's cooperative endeavour with many developing countries. These doubts about the massive Chinese economic and infrastructure campaign have led to the cancellation or the downsizing of major projects in some countries, including Pakistan, Malaysia and Myanmar.

Is there any validity to these arguments? Is China the new neoliberal using debt as a colonial tool?

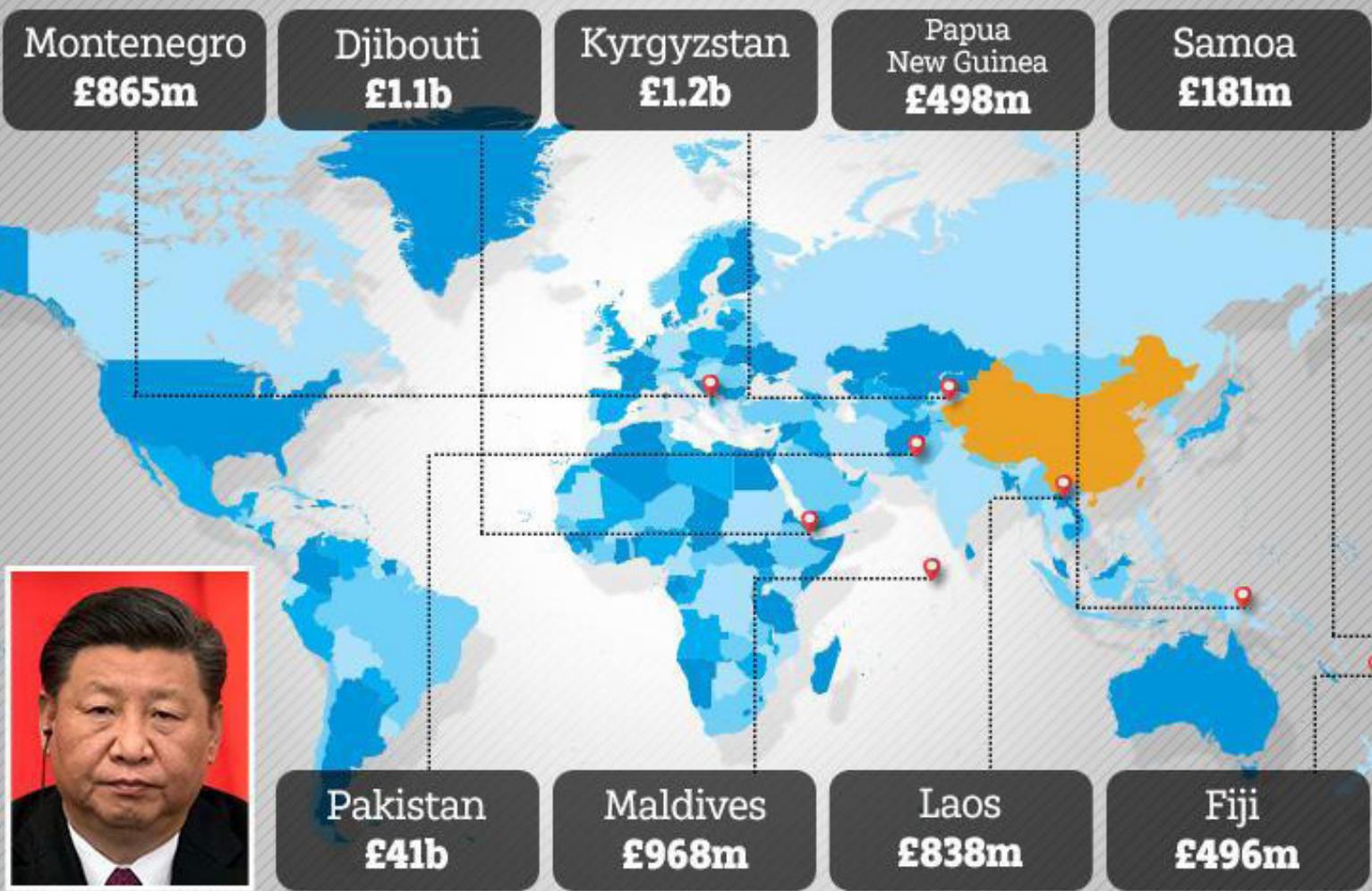
According to the April 2019 study by the US based Rhodium Group, China is inclined to renegotiate or write off debts incurred by other countries for its BRI infrastructure projects, and only rarely seizes assets. In fact, the study found that between 2007 and 2019, there was only one confirmed case of asset seizure by China and that was in Sri Lanka, where the government decided to hand over control of the Hambantota Port to a Chinese state-owned

company in 2016 to avoid defaulting on its debts.<sup>15</sup>

Even the Sri Lankan case is not be a cut and dried case of asset seizure. China's investment agreements do have stipulations for selling or concessioning the infrastructure it financed, where the beneficiary government is unable to meet its own part of the contractual obligation. The Chinese construction company for the project would take control of such a facility to recoup or until it has recouped its money.

Besides, the Chinese government has continued to maintain that the BRI has no political motives and China is not pushing any developing country into a "debt trap." As a matter of fact, China has shown a willingness to write-off debt owed to it, renegotiate some debts and has agreed to deferment of payment on others. China has written off debts totalling approximately \$50 billion. In 2015, it agreed to write off \$40 million in loans to Zimbabwe. Again, at the 2018 Forum on China-Africa Cooperation (FOCAC) Summit, China wrote off a \$7 million loan to Botswana. And this year, Ethiopia announced that Beijing had forgiven interest owed on its Belt and Road loans.

In the case of Africa, China is not the only country lending; Western countries and their financial institutions are doing the same. In fact, African countries owe more debt to the West and its financial institutions than to China. Therefore, if Africa is entrapped in debt, then it would be to both the West and China.



# China's Military Remains Work in Progress



The Chinese government released its 10th defence white paper, China's National Defence in the New Era, on 24 July 2019. Since the government published its latest white paper in 2015, the Chinese armed forces have undertaken the most far-reaching reforms since the 1950s.

The strategic landscape depicted in the white paper is one where the 'international security system and order' is supposedly engulfed by 'hegemonism, power politics, unilateralism and constant regional conflicts and wars'. The US is chiefly blamed for undermining global stability, while NATO is alleged to encroach even further into Central and Eastern Europe. Beijing clearly lays out its threat perspective. What it calls its 'comprehensive strategic partnership of coordination' with Russia reinforcing the image of a growing alignment of interests, despite the power imbalance between the two partners; Beijing is striving to portray this alignment as playing a significant role in maintaining global strategic stability. The defence white paper revealed a lot about how China views its security environment but it didn't reveal anything significantly new.

China's military attracts a lot of media attention whether its anti-aircraft carrier ballistic missiles, its new aircraft carrier or its growing cyber capabilities. China's military ascent has garnered significant global coverage because the US was bogged down in two long wars in Iraq and Afghanistan. Numerous works have been completed on the US vs China problem and when China may eclipse the US. Much of the research has used a bean counting exercise compar-

ing the number of ships or aircraft of both countries, but this exercise is very limited. When evaluating any force, you have to measure it against the mission it is trying to accomplish and the adversaries it may face and how it plans to resource and coordinate all its assets.

***“Much of the research has used a bean counting exercise comparing the number of ships or aircraft of both countries, but this exercise is very limited. When evaluating any force, you have to measure it against the mission it is trying to accomplish and the adversaries it may face and how it plans to resource and coordinate all its assets.”***

The US military doctrine is based upon the US projecting power globally to maintain its global presence. As the global superpower it needs to have enough military presence in every region to ensure no power can develop into a continental power and potentially challenge US global dominance. The US has to project force over great distances and as a result it resources this with over 800 military bases around the world and the world's largest aircraft carrier group fleet. In fact, the US has long emphasised aircraft carriers, large surface combatants and a sizable fleet replenishment force that can project influence and force around the globe. This global presence also includes 825 air-fleet transporters and

508 refuelling tankers, more than the whole world combined. All of this is knitted together with a space-based communication system. The US maintains a high readiness rate in order to project power into any region of the world. Being a global force means the US will be able to deploy a limited number of ships and planes into a region at any given time, as a result the US defence industry builds the most superior military platforms in the world. The US military is doctrinally geared towards offensive operations and maintaining troops abroad for this, as it has two oceans separating it from much of the world, its army focusses little on domestic defence.

China's military was for long geared towards a foreign invasion and for internal security. But this has changed in the 21st century. Its four decades long development has to be protected from both internal threats and those external. Its doctrine termed 'active defence,' is based upon preemptively countering threats to the Chinese mainland as well as avoiding becoming entangled in major conflicts, particularly those far away from China. China's doctrine is based on a regional view, not global, as this is where it expects threats to emerge. China sees the US as a potential adversary within its region due to its presence there. To resource this China realised it would need to develop its navy and air force as a result it has reduced and replaced its old naval and air platforms with more modern ones. It sees its platforms not travelling far from its mainland. As a result China has a small logistical base such as tankers and air transporters as it sees all future threats within its region. China's doctrine is defensive, to protect what it has, it is not for offensive purposes. China's military doctrine is the opposite to the US.

***“China has a small logistical base such as tankers and air transporters as it sees all future threats within its region. China's doctrine is defensive, to protect what it has, it is not for offensive purposes. China's military doctrine is the opposite to the US.”***



# Sea Power

For China to project power beyond even its first island chain, which is between 500 miles – 1,000 miles depending on which port of China's coast one is looking out from. China needs air and maritime assets to do this. Submarines are vital for China for this as they offer China the most realistic and effective way to project military power far from its shores. While Beijing is in the process of building up a very capable surface fleet, it is not yet powerful enough to reliably break through the first island chain let alone dominate distant waters.

The Chinese navy has added a sizable number of diesel-electric submarines to its fleet — including some of relatively advanced design — but the number of available nuclear-powered attack submarines remains inadequate to China's needs. In contrast to its 50 diesel attack submarines, China only operates an estimated six nuclear attack submarines. Moreover, China's existing nuclear-powered submarines, including its latest Type 093 boats, still trail

far behind both US and Russian designs in terms of quality, as they are noisier, possess less advanced sensors and deploy propulsion technology that is not as capable.

While diesel-electric submarines are well-suited for warfare within the first island chain, only nuclear submarines combine the stealth and the range necessary to engage in modern, long-distance operations. Nuclear submarines allow a navy to be at sea for longer periods due to nuclear propulsion. Germany in both world wars and the Soviet Union built up powerful submarine fleets precisely because their surface navies could not contend with the respective fleets of the Allies or NATO.





# Trailing in the Air

China has an air force of over 1,500 fixed wing aircraft, but it maintains only a partial fleet of around a dozen H-6U and IL-78 tankers for aerial refuelling capacity, this is not even close to service an air force the size of China's. Aerial refuelling is an important method by which China could increase the range and loiter time of its combat aircraft. If Beijing could accomplish this, its bombers could reach many distant targets, while its fighter aircraft could remain in the air longer to guard key targets. As China develops new combat aircraft like the H-20 stealth bomber, for instance, aerial refuelling capacity will become all the more important to maximize the capabilities of such aircraft.

China is moving forward with attempts to improve its aerial refuelling capacity. It has developed buddy refuelling (in which one fighter acts as a mini-tanker to refuel a fellow aircraft) for its J-15 carrier-borne fighters, while it is also developing a tanker version of its new Y-20 strategic transport aircraft. These developments, especially once large numbers of the Y-20 tankers come off the assembly line, will do much to bolster China's aerial refuelling capacity, but it will be a long time before China develops enough of these aircraft to make a strategic impact.

As China does not have a military that will fight far from home any conflict between the US and China would likely be in China's region. In a conflict close to the Chinese mainland, China's military would enjoy geographic and positional advantages, while the US would be required to successfully deploy its forces into the region. The geography of conflict is critical, and even short distances, have a major impact on relative capabilities. Chinese power projection capabilities are improving, but the PLA's ability to control military events diminishes rapidly beyond the unrefuelled range of jet fighters and diesel submarines. On the flip side the US will need time to build up a force of enough strength and concentrate them in the region, making military bases and their protection essential for the US. Although China has rapidly developed its capabilities and in some areas closed the gap with the US, China has not caught up to the US military in terms of aggregate capabilities—and is not close to doing so—but it does not need to catch up to the US to dominate its immediate periphery. The advantages conferred by proximity severely complicate US military tasks. Fun-

damentally China is increasingly capable of challenging the ability of US forces to accomplish mission-critical tasks in scenarios close to the Chinese mainland. Beyond its mainland, China's capabilities are not just extremely limited, but virtually non-existent.

China's entire military modernisation has been built upon maintaining its economic growth and territorial integrity. China's economy is dependent upon the world's sea routes for its imports and exports. Any blockade would lead to economic collapse. Any disruption from Latin America to Africa to Australia would lead to economic collapse. Currently China lacks the capability to project power beyond its regional waters.

***“Chinese power projection capabilities are improving, but the PLA's ability to control military events diminishes rapidly beyond the unrefuelled range of jet fighters and diesel submarines... China is increasingly capable of challenging the ability of US forces to accomplish mission-critical tasks in scenarios close to the Chinese mainland. Beyond its mainland, China's capabilities are not just extremely limited, but virtually non-existent.”***

Currently China has a single air base in Djibouti. This means its air force cannot deploy in large numbers far from the homeland as fixed wing aircraft, despite being air platforms, they rely upon what's on the ground - fuel and air bases for maintenance. China's navy is being equipped with modern sea going platforms these vessels are small and will remain small as the navy's focus remains on exercising power closer to home in the South China and East China seas. Whilst China's fleet will grow, it is set to maintain a much larger fleet of small surface combatants and diesel-electric submarines — vessels that are only ideal for combat in littoral environments close to home ports.

China has become deeply intertwined into the global economy and on the trade and sea routes, but for the moment it does not have a military that can protect most of this architecture. Its military modernisation therefore remains a work in progress.



# China's Hong Kong Problem

On 9 June 2019, more than 1 million people flooded the streets of Hong Kong to protest a controversial extradition bill that would have made it legal for convicted criminals in Hong Kong to be extradited to mainland China. For Hong Kongers this was a step too far, Beijing was not respecting the island's special status.

Matters reached boiling point in October 2019 when the National Basketball Association (NBA) unexpectedly found itself at the centre of the row between Beijing and anti-government protesters in Hong Kong when Houston Rockets General Manager Daryl Morey expressed support for the protests on Twitter. After the Chinese Basketball Association announced a suspension of cooperation with the league, the NBA scrambled to distance itself from Morey's views and defuse the situation. China was unsatisfied; broadcasts of NBA games were cancelled, NBA merchandise was pulled from Chinese stores, NBA ads disappeared (including one featuring the Brooklyn Nets, which are owned by vocally pro-Beijing Alibaba co-founder Joseph Tsai), and every one of the NBA's official Chinese partners suspended ties with the league. In the same week Beijing also reportedly forced Apple to remove the Taiwanese flag emoji from iPhone keyboards in Hong Kong, as well as two apps: HKMap.live, which Hong Kong protesters used to crowdsource police movements, and Quartz, a US media outlet whose Hong Kong coverage has evidently crossed a line.

The protests in Hong Kong that started in response to Chinese encroachment into the territory has now escalated into a full-blown crisis.

Hong Kong, like many of China's ports and coastal towns was lost to the colonial powers from 1839 as she came to be colonised by Britain and France

and then Russia, the USA, Portugal, Germany and Japan. In the first opium war from 1839-1842 Britain humiliated the Qing emperor by defeating his huge army and forced him to sign an unequal treaty — the Treaty of Nanking 1842; it forced the emperor to open China to British companies and it was to give Hong Kong to Britain as a colony forever with a British Governor. Britain then forced further concessions from the weak emperor in 1860 and forced him to cede the whole Kowloon Peninsula. Britain took advantage of China's defeat to Japan in 1895 and expanded its control by forcing the Qing emperor to cede the whole area around Hong Kong for a lease of 99 years with no rent.

The Hong Kong area when Britain took over was barren land with very little population. It was an area of farming and fishing villages and even the British foreign secretary at the time, Lord Palmerston described it as *"a barren island with hardly a house upon it."* But it gave Britain a port to access China for trade and for its ships to dock and replenish. Eventually Hong Kong became a busy trading port, and its



economy took off in the 1950s as it became a manufacturing hub. Today, Hong Kong is one of the world's most significant financial centres and commercial ports.

By the 1970s Britain was no longer the global power it was before WW2 and China had regained most of the territories it lost during its century of humiliation (1839-1945). As the end of the lease of Hong Kong was approaching, Britain attempted to continue its status with Deng Xiaoping in 1979. China regarded the treaties by which Britain obtained various parts of Hong Kong as unequal treaties, forced on China when it was weak, by a militarily stronger colonial nation. In 1984 the Sino-British Joint Declaration was agreed which would see Britain hand back Hong Kong to China when the 99 year lease ended in 1997 on the condition that China maintained Hong Kong's economic and political system for 50 years after the transfer: 'one country, two systems' was born. This meant rather than Hong Kong fully integrating into mainland China it would become a Special Administration Region of China where communism would not apply, it would have autonomy and its Western lifestyle would be preserved. China agreed to this as it was not strong enough then to fully assimilate Hong Kong into mainland China. It is believed by 2047, China would not renew the agreement at the time.

Britain could not impose anything on China but as it had built and ruled Hong Kong for so long and established Western values and structures it believed it could maintain its influence in this indirect way. It believed it could use Hong Kong to change China in its mainland. As China refused further direct rule by Britain, Hong Kong was transferred to China on 1st

July 1997, after 156 years of British colonial rule.

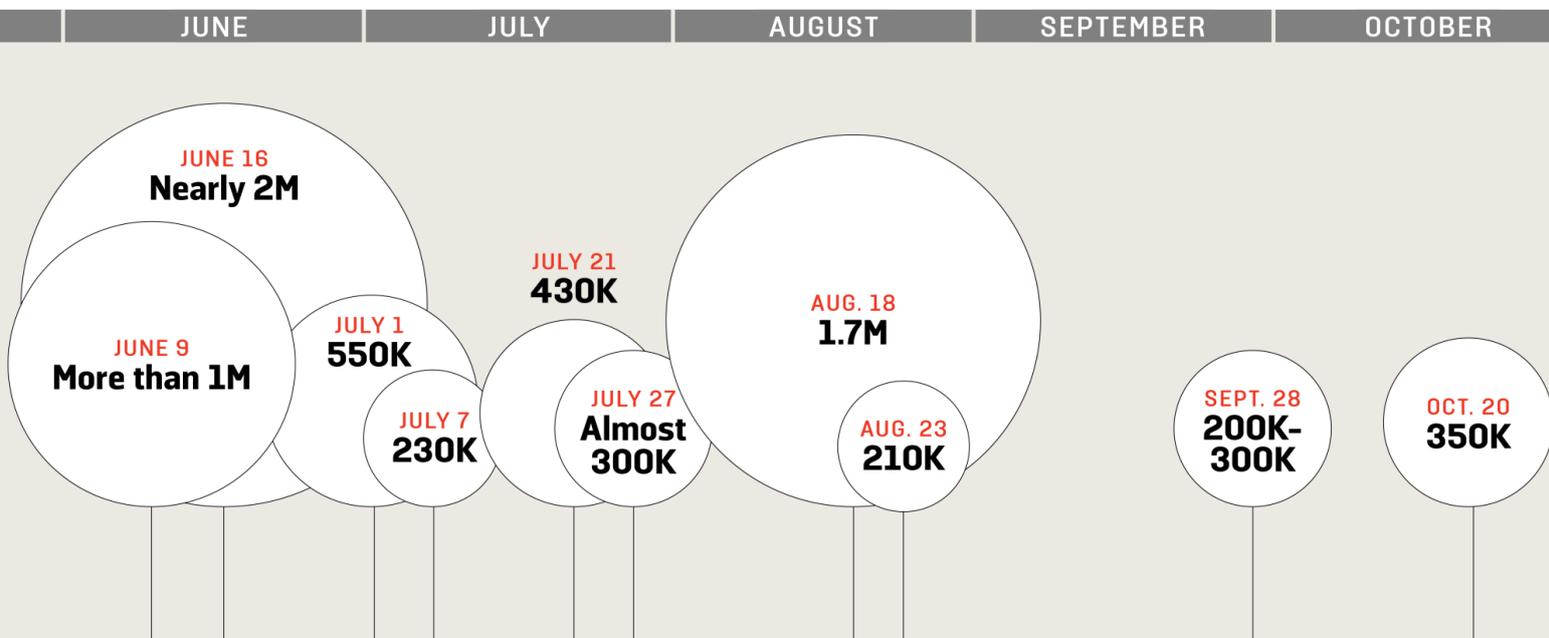
Although Hong Kong now belongs to China, it was to be an autonomous region for 50 years. Under this system, Hong Kong kept the British judicial system and legislative council which gave the island independence in its day-to-day operations. Hong Kong had its own constitutions (with some limits) and some rights like free speech and the freedom of assembly, which those in mainland China did not have. Hong Kong residents could not elect their own leaders, rather, a chief executive was to be elected by a 1,200 member election committee chosen by the Communist Party. As China's economy grew in the 2000s and as Hong Kong's size within China's economy shrunk from 28% of GDP to just 2% of GDP and as other regions have grown, China became more confident in dealing with Hong Kong.

### Integration with Chinese Characteristics

The Chinese regime began increasing its control by preselecting candidates for political office. When China announced in 2014 that people would only be allowed to vote for their chief executive in elections from a short list of pre-approved candidates, Hong Kong witnessed its biggest protests since 1997. To protect themselves from police spraying tear gas, they used umbrellas, giving rise to the name the "Umbrella Movement."

The Umbrella Movement received a lot of international support and they continued their efforts to protect their independence from China. Nine Umbrella Movement leaders ran for local office in Hong Kong in the territory's 2015 elections. In the 2016 elections, two pro-independence politicians won

### Crowd Size of the Hong Kong Protests



seats in the legislative council. They were quickly expelled for “failing” to properly recite their loyalty oaths at a swearing-in ceremony. In 2017 Carrie Lam, a candidate loyal to Beijing was elected chief executive — Hong Kong’s highest public official. Under her leadership pro-democracy politicians were removed from office and some jailed as dissidents.

The only aspect left of Hong Kong’s system that China did not control was the legal system.

Hundreds of thousands of people took to the streets on 11 June 2019 when a legal proposal was being considered that would allow criminal suspects to be extradited to mainland China. Opponents of the extradition amendments said the changes would compromise the territory’s legal independence. The middle of June 2019 saw over a million people protest this bill and them taking over the Parliament building. The Hong Kong parliament stopped the extradition bill but has not withdrawn it.

Protests continued into August 2019 with the security forces being overwhelmed and protestors taking over the international airport and causing hundreds of flight cancellations. Both China and Hong Kong have refused to yield to the demands of the protestors and the police have been incapable of restoring peace. This led to Chinese officials for the first time to link the protests to terrorism. Yang Guang, spokesman for the Hong Kong and Macao Affairs Office of the State Council, said at a press briefing on Monday 12th August 2019: *“Hong Kong’s radical demonstrators have repeatedly used extremely dangerous tools to attack police officers, which already constitutes a serious violent crime, and also shows the first signs of terrorism emerging.”*<sup>16</sup>

## Foreign Interference

The international response has seen the criticism of China to respect Hong Kong’s independence. The British Foreign Secretary Jeremy Hunt on 1st July 2019 in a statement marking the 22nd anniversary of Hong Kong’s handover to China said: *“It is imperative that Hong Kong’s high degree of autonomy, and the rights and freedoms of the Hong Kong people, are fully respected. We have made our position on this clear to the Chinese government, both publicly and in private, and will continue to do so.”*<sup>17</sup> The Chinese ambassador to London responded: *“In the minds of some people, they regard Hong Kong as still under British rule. They forget that Hong Kong*

*has now returned to the embrace of the motherland.”*<sup>18</sup>

The British Foreign Secretary, Dominic Raab called for an independent investigation into the protests. The Chinese foreign ministry spokeswoman Hua Chunying responded: *“It is simply wrong for the British government to directly call Hong Kong’s Chief Executive to exert pressure. The Chinese side seriously urges the UK to stop its interference in China’s internal affairs and stop making random and inflammatory accusations on Hong Kong. Hong Kong is no longer a British colony and the UK has no supervisory rights.”*<sup>19</sup>

Britain has no ability to do anything further to China. With major issues such as Brexit dominating the

**“Although the people of Hong Kong are Chinese, they see themselves as Hong Kongers first and do not want to be part of China. They view China as communist and want to be distinct and different to mainland China.”**

politics of the country and its desire to strike bilateral trade deals around the world, including China, Britain has not done anything further.

Officials in the US have responded differently due to the divide within the US political system. News reports stated in June 2019 that at the G20 Summit in Osaka, Trump told Xi Jinping that Hong Kong is an internal Chinese matter and the White House would not condemn Beijing’s actions there. Trump was focused on the US-China trade war and securing a trade deal. In a tweet on Wednesday 14th August 2019 Trump linked the protests in Hong Kong directly to the trade battle with China, and offered advice to the Chinese president: *“Of course, China wants to make a [trade] deal. Let them work humanely with Hong Kong first! I know President Xi of China very well. He is a great leader who very much has the respect of his people. He is also a good man in a ‘tough business I have ZERO doubt that ‘if President Xi wants to quickly and humanely solve the Hong Kong problem, he can do it.”*

Members of the House Foreign Affairs Committee issued a joint statement on 14th August 2019 expressing concern that China might consider “brutally putting down peaceful protests” and supporting “the brave efforts of Hong Kong people” in their demonstrations. The State Department said on Wednesday 14th August that it was “deeply concerned” by reports of Chinese paramilitary movement along the Hong Kong border: *“The United States strongly urges Beijing to adhere to its commitments in the Sino-British joint declaration to allow Hong Kong to exercise a high degree of autonomy. We condemn violence and urge all sides to exercise restraint, but remain staunch in our support for freedom of expression and freedom of peaceful assembly in Hong Kong.”*

Russia has supported the Chinese position and blamed Western meddling in Hong Kong.

Even without foreign interference Hong Kong would still be protesting due to China’s actions. Although the people of Hong Kong are Chinese, they see themselves as Hong Kongers first and do not want to be part of China. They view China as communist and want to be distinct and different to mainland China. Surveys carried out in Hong Kong show less than 10% of the population see themselves as Chinese. Most see themselves as Hong Kongers who are more Western, have a better system than China and are more free and live different lifestyles to mainland China. Britain ensured its culture was adopted by the people and this is now causing problems for China.

### **The Wait and See Strategy**

China’s strategy was to always integrate Hong Kong slowly and join it with its mainland and eventually regain all its lost territories. But it has miscalculated and not been able to use political cunning to win the people of Hong Kong. Despite China’s economic rise the people of Hong Kong see themselves different to China. Despite ruling over Hong Kong for 22 years and despite dominating the political system, the Chinese Communist Party has failed to win the hearts and minds of the island. This is a major failure of the Communist Party as it lost many territories during its century of humiliation and wants to regain all of them to show it’s a united global power. However, Hong Kong has shown the world, the government in Beijing cannot force them to join China. China wanted to use the integration of Hong Kong to show Taiwan and Tibet that it is inevitable that they will

need to join mainland China, but the huge demonstrations taking place in China show China internally is still divided and the Chinese government does not control Hong Kong. This is bad for China internationally as China has been presenting itself as a rising power that should be respected but it cannot even control its own territory.

It should be noted that Hong Kong has a population of 7.5 million. China has over 10 cities with populations larger than Hong Kong. The Communist Party maintains a firm grip on its 1.3 billion population. Its military despite its size, mainly undertakes internal policing duties to maintain the power of the Communist Party. If the Chinese government wanted, it could send in the military and crush the protests, they have the capability, as they did in 1989. But it’s unlikely this will happen unless the protests spread beyond Hong Kong into mainland China. A military intervention or scenes such as those of Tiananmen Square massacre in 1989 would weaken the position of the Communist Party both internationally and domestically: it would mean it had lost control. It will then face sanctions and penalties which will affect its economy a great deal in the middle of a trade war with the US. Hong Kong is far from China’s main manufacturing hubs therefore it’s unlikely protests would spread.

The Chinese leader Xi Jinping was made leader for life in order to create political stability as China faced many challenges but on all the main issues, he has not solved them from the trade war with the US, restructuring of the Chinese economy and the national debt. If Xi’s leadership is questioned by the wider party committee members he may send in the military to appear in control.

What China shows us is that one can have a large military and economic development, but unless you have values to give a society this material wealth does



not give you strength the way values do. Hong Kongers are Chinese people just like mainland China, but they see themselves as Westerners and have embraced Western values. Despite China's economic wealth, Hong Kongers don't want to be Chinese but Western. China has no values for these people as well as the world. Its foreign policy doesn't involve the spread of Chinese culture. Even under Mao when China was purportedly in a global revolution it did not spread its culture as its mission. In China's 4000-year history it never spread its culture around the world.

For months, riots on the streets of Hong Kong have been broadcast around the world. The repression of Uighurs in Xinjiang and its scale has now been made public with the leaks. Domestic unrest is not the sign of a great power. In the case of Hong Kong China appears inept and unable to bring the matter to a close.

***“If the Chinese government wanted, it could send in the military and crush the protests. They have the capability as they did in 1989. But it is unlikely, to happen unless the protests spread beyond Hong Kong into mainland China. A military intervention or scenes such as those of Tiananmen Square massacre in 1989 would weaken the position of the Communist Party both internationally and domestically: it would mean it had lost control.”***



# China's

# Emperor's

# in Trouble



Deng Xiaoping imposed a system upon China during his rule which allowed a smooth transition between rulers and did away the cult of personality that saw Mao Zedong dominate the political system. China's top leader holds three concurrent positions in order to be the supreme leader. General Secretary of the Communist Party, chairman of the central military commission (which controls the army) and state president, a mainly ceremonial role that confers ultimate control of the government. A leader must hold all three positions, but especially the first two to exercise full control of the state. In 1992 at the 14th party congress Deng Xiaoping, who had been China's paramount leader since 1978 retired and transferred control of the party, military and government to the new President Jiang Zemin. In 2002 Zemin retired and ceded control of the party and government to Hu Jintao, he did not give up chairmanship of the central military commission for another two years. In 2012 Hu retired and Xi Jinping assumed control of the party, government and military.

Xi Jinping became leader with a prosperous China, a growing China and a China that the world took seriously. When Xi came to power in China, he was seen as a decisive leader who could dominate Chinese institutions and guide China to a position of greatness. But then the Communist Party broke with tradition and gave Xi Jinping enormous power with the removal of presidential term limits, making him the leader for life.

Why would the Central Committee allow the office of the president to change so profoundly if things were going well?

A range of significant challenges and problems emerged since Xi took office. The most important are economic. Since 2008, the Chinese economy

has been struggling, and Xi's first task was to try to stabilise it. There were many dimensions to China's economic problems, but the core was that China was heavily dependent on exports. Which meant China was extremely dependent on its customers. In 2008, the appetite of China's customers for exports dramatically decreased due to the economic crisis. Within 6 years economic restructuring, debt and a trade war has added to the list of problems.

The management of all of this was Xi's responsibility. The management of US trade relations was his key responsibility. Xi's strategy was to portray the Chinese military as a significant threat to the US, in order to compensate for Chinese weakness in other areas. Xi believed this would compel the US to back off.

The US responded on multiple levels. It sailed aggressively in the South China Sea to demonstrate Chinese weakness. It developed deeper cooperation with Australia and Japan and India and Vietnam to counter China. It engaged in intense counterintelligence operations against Chinese nationals operating in the US and raised hurdles to Chinese tech companies selling goods worldwide.

Xi's goal was to position China as a huge Eurasian power, and yet, he found countries like Kazakhstan rejecting Chinese investment. He lost some of the control that China had previously enjoyed and left the Chinese economy weaker than it previously had been.

Then, the Hong Kong protests erupted. Initially, the central issue was a bill that would have allowed Hong Kong residents to be extradited to the mainland. China, could put down the protests by force, but it hasn't done so because it fears that a bloodbath

would add to its fraying economic relations. It clearly has sufficient intelligence on the demonstrators to be able to arrest leaders and disrupt the protests. But Xi has decided to let the demonstrations burn out. This was another miscalculation. The unrest has lasted for over six months now, far longer than many expected, and its main focus has shifted from an extradition bill to Hong Kong autonomy in general.

Xi's competence is now being called into question. Xi was brought in as a virtual dictator to manage the country's problems. Now, trade relations with the US are in trouble, military initiatives have generated significant counters, showcase programmes like BRI are getting negative press and Hong Kong is in revolt.

Then on 16 November 2019 a huge leak of government documents described in detail the Chinese assault that has been underway for several years on the ethnic minority Uighur community in the western

province of Xinjiang. The documents gave detailed accounts of massive detention camps for "retraining" purposes and the separation of families on a scale that is startling even for China.

Chinese detention of Uighurs is not new. What was startling is the leak of documents so sensitive that they validate claims of mistreatment that the Chinese long denied. These documents could have either been leaked by Chinese officials, appalled at what is going on in Xinjiang. They might have been released by the Chinese government as a warning to other dissident groups. They may have been released by senior members of the Chinese government who have become disillusioned by President Xi Jinping, hoping to force him out.

Whichever way, Xi, the emperor is struggling.



# Conclusion

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China is facing significant challenges at home and it can no longer hide these now. For long China promoted a strong and unified country who had global aims due to its global projects. But then its treatment of its own people in Xinjiang and its failure for the moment to deal with the uprising in Hong Kong shows all is not well domestically in China.

China has not been able to restructure its economic model, and this poses long term challenges if the Communist Party plans to engage in international issues. China's foreign adventures are predicated upon it being strong domestically but with economic growth shrinking to the lowest it's been in three decades, with debt well in excess of the nation's GDP: 2019 has revealed a number of issues which China has been able to deflect from, as the world marvelled at China's continued growth and mega projects.

China is working to keep its trajectory going as it will need all its domestic strength to pose any challenge to the US. Despite BRI, China remains for the moment a regional challenge for the global superpower, until it breaks out of its region or begins manoeuvring politically around the world it will struggle to weaken the global hegemon.

## 2020

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### ***Global Power***

China has yet to outline what its agenda is for the world. This is mainly because China lacks global ambitions currently. Whilst China has been making economic deals across the world, how the world should look and what China plans for the world is markedly missing. In 2020 and beyond China needs to show the world it has global ambitions and highlight what the world should look like. This will show China indeed has a global outlook and not the current regional one.

### ***US-China Trade war***

China needs to find some sort of grand bargain with the US over the trade war. In the long run it will only hurt China. With domestic problems growing the trade war with its main customer becomes even more important. Whether China gives concessions or agrees to US terms, 2020 will be key for China's economic trajectory.

# CASE STUDY: The Tiananmen Square Protests

In 1989 the CCP faced a major revolt against its power which could have derailed China's economic development. The first reforms in China took place in the rural areas and disproportionately favoured farmers as agricultural production grew rapidly leading to an increase in wealth to rural areas at the expense of urban areas. The open and reform period during the 1980's also saw a period of great intellectual fervour. Many Chinese began traveling around the world and the CCP sent Chinese officials and CCP supporters around the world to learn how other countries have developed and bring this knowledge back to China. For the first time since 1949 both students and scholars began to travel abroad in great numbers. This naturally led to much discussions about alternative political systems, which the CCP surprisingly tolerated. Many not only saw the high living standards in Europe and the US but even much closer to home in Hong Kong.

In this backdrop inflation (especially food inflation) regularly hit double digits due to the huge increase in

agricultural production, in 1988 inflation was running at 30%. This was having a huge impact upon urban dwellers disposable income. Students were also coming out of urban universities with little employment prospects. China's State-Owned Enterprises (SOEs) were not creating enough jobs at the time. There was widespread anger over government officials who would buy up goods at low-state-plan prices and sell them at much higher prices.

All these issues boiled over on 4 June 1989 as over a million Chinese urban dwellers took to the streets to protest. The protests were forcibly suppressed after Chinese Premier Li Peng declared martial law. Troops with assault rifles and tanks fired at the demonstrators trying to block the military's advance towards Tiananmen Square. The number of civilian deaths was internally estimated by the Chinese government to be above 10,000.

The international community condemned the Chinese government for the massacre. Western countries imposed arms embargoes on China. The Chinese government made widespread arrests of protesters and their supporters. The suppression considered a watershed event, set the limits on political expression in China up to the present day. Its memory is widely associated with questioning the legitimacy of Communist Party rule and remains one of the most sensitive and most widely censored topics in China.





# EU

***Divisions and departures from the EU continue to dominate European affairs. Both the unions heavy weights have attempted to move ahead with the EU and make it a more unified bloc, especially on the defence front but centrifugal forces continue to make this difficult.***



# Germany-France update alliance

French President Emmanuel Macron and German Chancellor Angela Merkel sat down on 22 January 2019 in Aachen to sign a document that was to deepen the bond between their governments. The document which has not come into force yet will enhance cooperation on security, defence and the economy. The agreement is meant to send the message that the two stand united in the face of the many issues confronting the European Union (EU), which now includes how to manage growing nationalism and disputes with the US and China. The document shows that the two largest economies in the EU are still interested in preserving their alliance.

The Aachen Treaty is intended as a follow-up to the Elysee Treaty of 1963, in which France and West Germany agreed to increase their political, economic, military and cultural cooperation. The two countries signed that pact less than two decades after the end of WW2, when the European Economic Community (EEC, the European Union's predecessor) was only six years old. At that time, Paris and Bonn were still seeking ways to leave their traumatic past behind and foster cooperation on crucial issues such as foreign policy and defence. France viewed the treaty as a means to enhance Europe's autonomy from the US at a time when West Germany was pursuing close cooperation with the White House. Bonn was also backing the United Kingdom's accession to the EEC in the face of French scepticism. Despite numerous challenges that have emerged in the relationship Franco-German cooperation has deepened substantially over the past six decades, so much so they now share the same currency – a development that would have seemed possible in 1963.

The Aachen Treaty takes place in a dramatically different context today than its predecessor 56 years ago. The EU is not an alliance of just six countries, but 28 (for the moment). The much bigger bloc is less cohesive than it was in the 1960s. France and

Germany still carry a lot of weight in the EU's decision process, but they are no longer its undisputed leaders. Strategic and ideological disputes between northern and southern Europe, and between western and eastern members of the bloc, has led to political fragmentation. At the same time, the emergence of nationalist and Eurosceptic political forces everywhere on the continent pose a serious threat to the union's continuity.

By pushing ahead with this bilateral agreement France and Germany will further tighten their grip on the continent. It has been in both countries' interest to work closely so that another war between them is impossible, while both wish to limit the influence of external powers like the US, Russia or China.



# Europe's Defence Force

In June 2019 a top Pentagon official warned that the US government could go so far as to limit European companies' access to the US defence market, should the EU continue to inhibit its involvement in programmes such as the Permanent Structured Cooperation (PESCO). The EU's plans to develop a military initiative and a multi-billion dollar defence fund have threatened the United States' access to its EU allies' defence markets.

Such initiatives are key stepping stones in Europe's attempts to form a common defence capability while helping the Continent achieve a level of geopolitical independence from the US.

The Trump administration has been calling on its European allies to increase their defence spending, expressing the need to create a stronger Western military alliance. The EU has now begun this by developing a new military initiative, called the Permanent Structured Cooperation (PESCO), along with a multi-billion European Defence Fund (EDF). But these programmes were not what the US really had in mind. The US is getting what it asked for in regards to a stronger European military force, but it's also one that's designed to be less reliant on US defence exports.

In recent years, Europe has established various separate institutions and platforms that allow the Continent's separate armed forces to achieve higher degrees of efficiency and cross-border cooperation. But these efforts, which have largely been spearheaded by France and Germany, have now put the EU at odds with the US, its key defence ally and supplier since World War II.

Europe sees the EDF and PESCO as key to making the Continent less dependent on the US in terms of defence. There is a broadly shared view that Europe needs more strategic autonomy on the global stage — and a more sovereign defence industry is a critical step toward achieving that goal. The US, however, has argued that a EU military pact would undermine the power of NATO. In response, Brussels has insisted that these measures will, in fact, complement NATO's mission by making the defence sectors of individual EU countries more efficient and effective.

Over the years, the EU, as well as smaller subgroups of member states, have floated various ways to better integrate Europe's military capabilities. But the de-

velopment of PESCO is different in that it lays out a direct strategy for actually consolidating the Continent's defence technology and industry capabilities. PESCO creates a space for European partners to jointly work toward the common security needs of the bloc, while the EDF guarantees nearly \$13 billion budget for research, development and production.

The US was expecting to receive a big piece of the EDF's multi-billion dollar pie, but the EU deliberately put rules in place to ensure that the budget is used for its intended purpose — that is, developing Europe's own defence capabilities. This includes requiring all EU members in PESCO to unanimously approve the engagement of third parties in EDF-funded defence projects.

These restrictions have been at the core of the United States' concerns with the military pact. Washington has argued that the restrictions essentially shut out the US defence industry from accessing the EDF's budget. But this, of course, is just what Europe intended.

The most vocal countries pushing for a unified European defence force are, unsurprisingly, those that have

***“The US has always used security as a basis to interfere in Europe but this trend of Europe shifting towards its own defence is now moving in this direction and whilst the US is trying to marshal all its allies in its global struggle with Russia and China, Germany and France now have increasingly less need to be at the USs' beck and call.”***

already developed a high degree of autonomy from the US defence industry — namely, Germany and France. As two of the largest economies in the bloc, both countries have leveraged their far-reaching influence in the EU to position themselves as the main protagonists in the push to integrate the bloc's defence capabilities.

Compared with other EU members, France, in particular, jealously guards its strategic autonomy on defence, as it has a history of isolating itself from global alliances such as NATO. Today, France offers the US very little access to its arms industry — only importing US military equipment based on niche capabilities. But the US defence market isn't exactly open to the European defence industry either.

The US has always used security as a basis to interfere in Europe but this trend of Europe shifting towards its own defence is now moving in this direction and whilst the US is trying to marshal all its allies in its global struggle with Russia and China, Germany and France now have increasingly less need to be at the USs' beck and call. <sup>55</sup>

The EU's European Commission published a report in March 2019 titled: "EU-China: a strategic outlook," for the first time, Beijing is mentioned as a 'systemic rival' of Europe. China is moving from a "strategic partner" to a "negotiating partner."

China has slowly penetrated the central and southern periphery of the EU, aiming to access the "core economies" of Europe, while simultaneously taking strategic control of the main shipping ports as points of entry for Chinese products.

In the framework of China's 21st Century Maritime Silk Road, an integral part of BRI, Italy is one of China's most important European strategic players. The flagship Chinese project, the "Five Ports" initiative, links together the Italian ports of Venice, Trieste and Ravenna — plus Capodistria in Slovenia and Fiume in Croatia — by the North Adriatic Port Association.

While Italy is not the first EU state to become a member of BRI, it is the largest EU economy, and the only G7 member. The memorandum of understanding (MoU) between China and Italy is a very ambitious (though not legally binding) document, aiming at a strategic bilateral partnership (with involvement from other willing participating nations) that covers a broad range of areas: trade, investment, finance, transportation, logistics, infrastructure, connectivity, sustainable development, mobility and cooperation. Notably, the agreement left out telecommunications.

The EU, as a whole, has not achieved increased access to Chinese markets, despite long years of insistence. It is possible, however, that strengthened transportation networks and future Chinese control over infrastructure and strategic investment will, in the long-term, destroy Italy's local industries.

In the "EU-China: A Strategic Outlook" document, the focus is to achieve a more balanced relationship with China, based on fair competition and market access, with the goal of persuading China to commit to reforms (within the framework of the World Trade Organization) of industrial subsidies and policies.

The EU strategy is signalling an end to China's unfettered access to the EU market, and Beijing is failing to reciprocate by liberalising its own market. Several European countries are also slated to auction off licenses for the development of their national 5G mobile communications networks in 2020. This includes Germany, France, the Netherlands, Austria, Belgium, Greece, Hungary, Ireland and Portugal — with many more to follow soon after. The US crackdown on Chinese telecommunications giant Huawei, is forcing these countries to reconsider whether to include the company in their line-up of potential 5G partners.



# Brexit

Britain's political class have been at odds on the nation's membership of the EU and how much it really helps the UK. This divide has created a bitter internal civil war that has been raging for the past forty years. The Brexit vote in 2016 was clear with Brexit winning but in the years since successive politicians have done everything possible to not follow the electoral result, they have delayed leaving the EU, they have placed condition after condition in talks with the EU and what is now clear to all the public, the vote was irrelevant and the politicians care little for the wishes of the people.

Britain's position seems to be If Britain remains in the EU it wants a deal where it gets all the benefits of the EU, its customs union and single market, but it restricts immigration and maintains distance from the aspects of the EU that don't suit it. If this deal cannot be achieved, then Britain is better outside the EU. The negotiations with the EU over this are destined to fail as Britain is asking for a special deal which no member in the EU has.

The challenge for Britain is that there is no need for the EU to capitulate to such terms. It is in the EU's interests to maintain the EU and keep Britain within the EU as no nation has ever left the EU. Greece even in its depths of its economic crisis when Germany was imposing harsh conditions upon it, public opinion remained high for Greece to remain within the EU. But as the negotiations have dragged on for three years, many within the EU see Britain as a spoilt child who doesn't deserve the benefits of the EU.

The EU offered a deal to the UK where it would need to accept the right of Europeans to travel to the UK in return for access to the single market and the customs union. But the British parliament refused to

accept such a deal as immigration was a key consideration for those who voted to leave the EU. Theresa May presented this deal three times to parliament in the hope it would pass but she was humiliated and forced to leave office.

Boris Johnson came to office with the weakest hand, the EU made clear that it would not renegotiate any deal and what is offered to Theresa May was final. Johnson came into office on the back of the fact that he was prepared to drive the UK off a cliff without a deal. He has attempted to force the EU's hand. European leaders have long viewed Boris Johnson as a dishonest buffoon, driven by personal desires. The governments of both May and Johnson have consistently tried to exclude Parliament from having a role in the Brexit negotiations, with Boris' suspension of parliament just the latest attempt.

***“But as the negotiations have dragged on for three years, many within the EU see Britain as a spoilt child who doesn't deserve the benefits of the EU.”***

Boris Johnson's was in reality focused on laying the groundwork for a general election which took Place on 12 December 2019, which he subsequently won with a large majority. The majority allows the government to now advance the EU withdrawal agreement negotiated Prime Minister Boris Johnson and leave the European bloc at the end of January 2020. Now formal talks on Britain's relationship with the continent can begin. What was meant to be an orderly divorce from the EU has turned into a day-time TV show with so many twists and turns that nobody can keep up.

# Conclusion

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Britain at some point will leave the EU and this will leave a hole in the union which heavyweights France and Germany will have to fill. The EU is facing so many problems from rising nationalism, funding to develop the southern nations who joined the EU that its struggling to justify its existence. Between the political shifts evident in 2019 and the bleak economic outlook, tensions in EU talks will only intensify. In addition to the economic uncertainty, other major problems loom on the horizon which a union of 27 or 28 nations will need to navigate

## 2020

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### *Funding*

Since the 2008 financial crisis, the future of the EU has repeatedly been questioned. The crisis brought to the fore the monumental challenge of running a monetary union without having complete control over the economies of its members. National interests on many occasions were pitted against the bloc's interests. This is why discussions on budget, subsidies and who should pay what amount continues to plague the union. In 2020 the question over how to fill the void left by the UK's departure will have huge impact on the EU budget. The UK's net contribution to the EU in 2018 was nearly \$14 billion, or about 8% of the budget.

### *Nationalism*

Its response to the 2008 financial crisis and multiple aftershocks, which resulted in high unemployment rates and high debt levels for many of the bloc's members. This stoked nationalist sentiments that clashed with the pro-EU stances of the parties that were in power at the time. The main question was whether the EU did more harm than good for its member states. As a result, the EU now faces a greater sense of urgency than it did in the past to reach consensus on key issues; it needs member states to buy into agreements even if these agreements don't address the root causes of the problems the members are facing. In 2020, if many in the bloc feel their issues are not being dealt with its likely more unconventional parties will get into power.

### *Narrative*

The EU was created at the end of WW2, and for long it didn't need to justify its existence. But 70 years on, an enlarged and deeply integrated union – with its first member exiting, the EU is struggling to justify its existence. Arguments that the EU has maintained unity on the European continent and no wars have taken place fall on deaf ears as nearly all the generations in Europe never witnessed WW2. With Britain not too far from exiting the union the EU will need to develop a narrative which pro-EU parties can promote. For the moment, the problems with the EU is all one hears about the EU.



# Global Economy

*A number of storms are gathering in the global economy as its now been just over a decade since the last global recession and the next one is now due. China's economic slowdown, the US-China trade war, the struggle to increase global demand and the various trade wars have caused considerable strain on the global economy. As a result, numerous global institutions cut their growth forecasts and in some cases estimates have been halved, none of this bodes well for the global economy in 2020*



# US-China Trade War Continues

The trade war started by Donald Trump has now reached two years but US President Donald Trump's end goals seem as elusive as ever. Considering China and the US are the world's first and second largest traders a trade war between them would also impact the rest of the world due to the integrated supply chains that dominate global trade.

The trade war has hurt China whose growth rate was already falling. With its number one customer imposing tariffs, it was always likely China would be hurt. China's growth rate has now officially fallen to its lowest rate in 27 years and this is taking into account China has been reporting its growth figures correctly which has always been a question mark.

The rising costs and the unpredictability caused by the unstable tariffs and retaliations has caused more than 50 companies, including Apple and Nintendo, to move their supply chains away from China to Southeast Asian countries. Kiyofumi Kakudo, the CEO of Dynabook, said that his firm did not know when the fourth round of US tariffs might hit, and thus will need *"permanent measures to avoid the risk of tariffs and be eligible for US government procurement."*<sup>20</sup> Apple, on the other hand, has also asked its major suppliers to consider moving up to 30% of iPhone production out of China and has attempted to produce AirPods in Vietnam. A UN report established the tariffs have hit China to the tune of \$35 billion. The hardest-hit Chinese manufacturing sector has been computers and other office machinery, and communications equipment, where exports from China have declined by \$15 billion. Other areas that have "dropped substantially" include chemicals,

furniture, precision instruments and electrical machinery.<sup>21</sup>

On the US side, experts predicted a good 2% to 2.5% growth in the US economy in 2019. However, if the trade war continues to escalate, which seems inevitable, it might inflict a powerful shock to the American economy, who although not dependent on exports, it is dependent on consumption within its economy. For the first time in nearly eleven years, the Federal Reserve cut interest rates in an attempt to lower the odds of a recession. A day later, Trump again raised the odds for a recession by announcing tariffs on \$300 billion worth of US imports from China, targeting consumer goods. Kristina Hooper, chief global market strategist at Invesco said: *"It could be incredibly damaging to the global economy. The risk of a recession has gone up because of the ratcheting up of the trade war."*<sup>22</sup>

According to data from the first six months of 2019, most of the cost of higher US tariffs on China have been passed down to US consumers and firms. *"US consumers are paying for the tariffs ... in terms of higher prices,"* said Alessandro Nicita, an economist at the UN trade agency, UNCTAD. *"Not only final consumers like us, but importers of intermediate products – firms which import parts and components from China."*<sup>23</sup>

The trade war is having an impact on both the US and Chinese economies, but its impacted China more adversely as the US can buy its consumer goods from other nations, whilst China will not find another market like the US economy.



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INTERNATIONAL MONETARY FUND

## The IMF and Global Recession

The IMF downgraded its outlook for global growth when it met for its annual gathering in October 2019. The world's largest economies are not cooperating on the global economy and the lack of coordination is the new normal. Slow global growth is spurring greater political discontent in many countries, creating challenges to the global economy. Heightened risks, disagreements on policy, a shrinking US leadership role and the rise of China are creating uncertainty in the global economy.

When the IMF gathered the world's leaders for its annual summit it was the fourth time in a year, the IMF downgraded its 2019-2020 outlook by forecasting a "synchronised" global slowdown that will affect 90% of the global economy. The IMF's recommendation was the largest economies should coordinate fiscal and monetary stimulus, as they did during the economic crisis in 2008-2009. The IMF recommended that Germany should increase spending in coordination with other economies.

The major economies in the world, including Germany are not prepared to do this as they are not prepared to prioritise mutually beneficial approaches over those with immediate national payoffs that cater to domestic audiences.

The Washington Consensus has taken a battering over the last decade and will continue to fade amid attacks from emerging economies. The IMF's failing programmes for Argentina and Ecuador, as well as its difficulties in negotiating a new programme for Ukraine, has evoked new attacks from critics of the lender's existing market-oriented policy approach to financial distress. The IMF's admission of policy errors on Greece and the impending collapse of its Argentina loan — the largest in the fund's history doesn't bode well for the organisation or the global economy. The new Managing Director Kristalina Georgieva countered a lot of the pessimism during the meeting by trying to highlight the success of Egypt's IMF programme, but more vociferous criticism could come later from Argentina and the G24, a group of

emerging economies.

The IMF is looking at a funding crunch. More on the back burner is the question of IMF funding, even though it's critical to the organisation's future. Bilateral lending of about \$440 billion, more than 40% of IMF resources, expires at the end of 2019, although lenders can extend their commitments until the end of 2020. There's also a multilateral agreement, the new arrangements to borrow, among 40 countries to provide an additional \$250 billion in emergency funds when necessary, but that deal also expires in 2022. Otherwise, mandatory national contributions or quotas of \$660 billion, which also determine voting shares at the organisation, provide the remaining IMF funding.







## Cryptocurrencies: From Cyber-fad to non-sovereign Currency

2019 was the first decade anniversary since the first Bitcoin transaction took place and nearly two years since a speculative bubble pushed the price of Bitcoin to almost \$20,000. Cryptocurrencies are now attempting to move away from being a fad and anti-government culture into the world of governments and traditional institutions. Many governments, central banks and financial companies have come to see cryptocurrencies as a threat, others want to harness the advantages they offer. The question remains whether non-sovereign currencies can serve as default currency and what threat they pose to governments or how beneficial they might become.



The US dollar has been a central tool the US has used in its global liberal order since WW2 in order to maintain its hegemony. In May 2019 US Rep. Brad Sherman of California urged his colleagues to “nip Bitcoin in the bud.” Sherman pointed out that “an awful lot of our international power comes from the fact that the US dollar is the standard unit of international finance and transactions. It is the announced purpose of the supporters of cryptocurrency to take that power away from us, to put us in a position where the most significant sanctions we have against Iran, for example, would become irrelevant. So, whether it is to disempower our foreign policy, our tax collection enforcement or traditional law enforcement, the advantage of crypto over sovereign currency is solely to aid in the disempowerment of the United States and the rule of law.”<sup>24</sup>

The cryptocurrency community reacted to Sherman’s remarks equating them to the opinion of the whole of the US. Groups on Telegram, the instant-messaging platform of choice for most blockchain companies and for discussions related to cryptocurrencies, vigorously debated whether US officials had declared cryptocurrencies an existential threat to the United States’ global financial dominance or not. The mainstream media reacted more modestly. Bloomberg, the New York Times and The Washington Post, for example, did not report about Sherman’s statement.

Widespread attention greeted Facebook’s announcement in June 2019 that it will launch a proprietary cryptocurrency, Libra, in 2020. Libra will be a so-called stablecoin, a digital asset backed by a basket of international currencies, such as the dollar, euro and yen. Facebook has formed the Libra Association to oversee the cryptocurrency’s development and governance. The Libra Association will be based in Geneva, Switzerland, and will be run as an independent, not-for-profit organisation with more than two dozen founding partners, including Mastercard, Visa, PayPal, eBay, Uber, Lyft, Spotify, Vodafone and Coinbase.

News about Facebook’s plans has played out well for Bitcoin so far. Bitcoin’s value remains volatile, but as a decentralised currency beyond the control of governments or corporations, Bitcoin suggests new options for countries tired of the dollar’s dominance. Growing geopolitical instability will increase the desire for a decentralised currency infrastructure no matter what the US wants or whether Facebook succeeds with Libra.

## Russia Bearish on Crypto's

Russian authorities have given mixed signals about cryptocurrencies. On the one hand, there have been reports that Russia is exploring the creation of a gold-backed cryptocurrency; on the other hand there have been statements by Elina Sidorenko, chairwoman of the State Duma's cryptocurrency group, that *"the Russian Federation is simply not ready to combine its traditional financial system with cryptocurrencies. And to say that this idea can be implemented in Russia for at least the next 30 years is unlikely."*<sup>25</sup> Russian officials have also levelled the usual accusations about money laundering, tax evasion and supporting terrorism against the use of Bitcoin and other digital currencies.

During his annual televised "Direct Line" with the public in June 2019, President Vladimir Putin was asked if Russia would have its own cryptocurrency. *"Russia cannot have its own cryptocurrency by definition — just as any other country cannot have its own cryptocurrency,"* Putin said. *"Because if we are talking about cryptocurrency, this is something that goes beyond national borders."* He added that the government treats issues like mining cryptocurrency *"very carefully,"* even if they are not yet regulated and said that *"the central bank believes that cryptocurrency cannot be a means of payment, settlements, cannot be a means of accumulation, and they are not secured in any way."* But Putin also said the Russian government was carefully analysing this "phenomenon" to understand how it can participate and use it.<sup>26</sup>

The rate of adoption of Bitcoin and other cryptocurrencies has been low in Russia and a year of official bearish sentiment toward them combined with the country's economic struggles has decreased Russian interest in cryptocurrencies. But interest in using blockchain and digital assets can increase when a country is undergoing a social-economic ordeal. Such is the case with Zimbabwe.



Many Zimbabweans are tech-savvy despite the country's poor technological development, and many have embraced Bitcoin. The country's hyperinflation is one factor behind that trend. The government abandoned its national currency after a trillion-Zimbabwean dollar note was introduced in 2009, allowing the use of foreign money, including the U.S. dollar, euro and South African rand. (Zimbabwe reintroduced the Zimbabwean dollar in 2019 and enacted other fiscal changes that have reinforced interest in Bitcoin.) This decision, in turn, created other problems such as shortages of foreign cash. To address that problem, the government tightly controlled the amount of US dollars available for withdrawal. So, Zimbabweans started to look for ways to control their money without government restrictions. For many, Bitcoin, delivered by Zimbabwe's cryptocurrency exchange Golix, was the answer.



## Crypto is Zimbabwe's Answer

## Argentina Sees Crypto Attraction

With an inflation in Argentina now at 53%, a falling peso and tumbling markets, Argentines in the tech industry have shown an increased interest in Bitcoin and other digital currencies. So has the government.

In March 2019, Deputy Finance Minister Felix Martin Soto said the Argentine government should use cryptocurrencies and blockchain technology to reduce the country's demand for US dollars and encourage global investment. (Half of Argentina's population doesn't have bank accounts and prefers to keep savings in dollars.) President Mauricio Macri has met with cryptocurrency investor and advocate

Tim Draper, who argues that Argentina could disrupt the devaluation of the peso and other economic problems by embracing blockchain and legalising Bitcoin. The Argentine government has co-invested in blockchain projects and promoted the use of Bitcoin to sell exports. In February 2019, Argentina sold pesticides and fumigation products to Paraguay, settling the transaction using Bitcoin. Though the cryptocurrency may be volatile, it's less volatile than the Argentine peso and other South American sovereign currencies, which makes it an attractive alternative.

## Economic Despair and Crypto

Venezuela is the first country to introduce its own cryptocurrency, el Petro (petromoneda). Venezuela's traditional currency, the bolivar, has become practically worthless as the country's economy has spiralled downward with inflation at 10 million percent. But economic despair can encourage Bitcoin adoption and Venezuelans, motivated by the country's strict capital controls, instability and financial insecurity, have turned to cryptocurrencies, which are more stable than the hyperinflated bolivar and can be fully owned.

Petro, supposedly backed by Venezuelan oil assets, also should be more stable than the bolivar and help Venezuela weather US sanctions and its economic crisis. So far, it hasn't worked out as promised. Experts criticise Petro for lacking transparency and global exposure and for it being fully centralised with all control in the government's hands. For instance, whether or not Venezuelan oil actually backs it remains an unknown. There is little evidence of Petro's actual use. It's not traded on any major cryptocurrency exchange and apparently, no shops accept it. Meanwhile, Bitcoin usage continues to grow in Venezuela.



## Success in the Pacific

Real progress with a decentralised sovereign cryptocurrency — and a positive and promising use case — is being made in the Marshall Islands. In 2018 the Pacific nation announced its plan to create an independently governed digital currency called the Sovereign (SOV). In June 2019, the government said it has established a not-for-profit organisation to develop and manage the SOV, which will circulate alongside the US dollar, the currency currently in use in the Marshall Islands. A decentralised, government-supported cryptocurrency designed with transparency and security can become an important point of adoption. Success in the Marshall Islands might prove that cryptocurrencies can substitute for the US dollar.

# Bright Future

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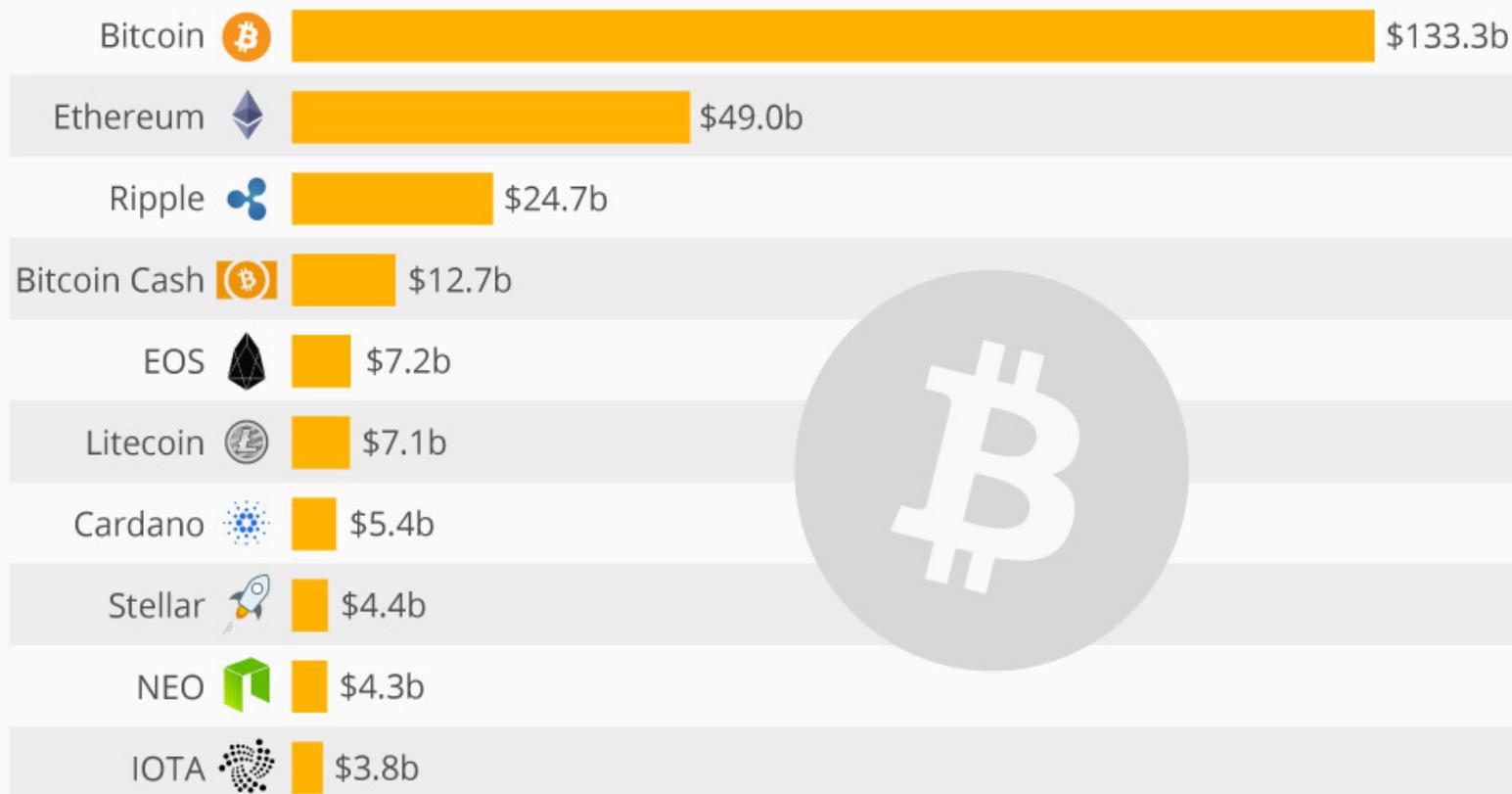
Instability and uncertainty stir distrust in government and for many who feel excluded from a central financial system, who lack economic opportunity or have no banking account (more than 1.7 billion adults remain unbanked worldwide), a currency that doesn't depend on a government or authoritative leader and which allows anonymity, simplifies transactions and minimizes third-party interference, is appealing.

For governments cryptocurrencies are a new form of money not limited by national borders or controlled by central banks. They conjure visions of individual control over earnings, investments and transactions free of government interference. For small countries like the Marshall Islands, Malta or Estonia, establishing a proprietary sovereign cryptocurrency or adopting Bitcoin as the main currency can be a means of attracting innovative companies and entrepreneurs, which in turn can boost economic and technological development.

Still, in their early stages of development and acceptance, cryptocurrencies hold tremendous potential as an alternative to traditional banking. By imposing sanctions on Russia, Venezuela and Iran, and by deepening its trade war with China, the US has motivated those countries and others to attempt to find a substitute for the dollar.

## The Top Ten Cryptocurrencies

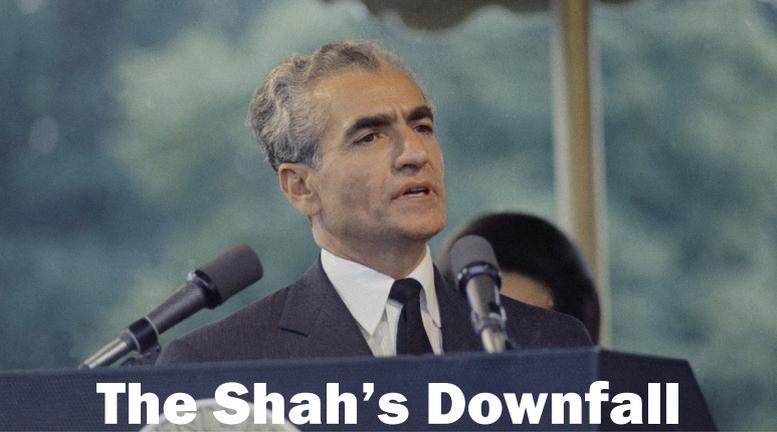
Market capitalization of major cryptocurrencies





# Iran's Revolution: 40 Years On

***On the 11 February 2019 Iran celebrated the 40th anniversary of its Islamic revolution. President Rouhani led the commemoration in Tehran and vowed to continue the country's missile programme. Despite challenges from the global super power including sanctions and international isolation and enemies such as Saudi Arabia and the Zionist Entity in the region the clerical regime in Iran has been resilient in the face of all these challenges and managed to maintain a firm grip on power domestically as well as expand its influence and power within the region. But for every year the clerics have been in power the challenges are growing both inside and outside Iran.***



## The Shah's Downfall

The emergence of the clerical regime began with the demise of Muhammed Reza Shah Pahlavi (the Shah). The Shah's attempts to reform Iranian society in order to break the hold of the Shi'ah clergy imposed various measures like higher land taxes all designed in effect to break this traditional system. The aim was to move surplus labour from the traditional rural economy to the newly forming factory based industrialised economy. This in turn was creating a new, small, but wealthy oligarch class of industrial owners who employed many of the rural poor driven off the land because agricultural production, amongst other rural trades, had become unviable.

Iran's income from oil moved from a few hundred million dollars to around \$30 billion a year in the late 1960s and early 1970s. Much of this new found wealth was spent on huge US arms purchases that saw Iran as a pliant client state. However, oil prices dipped in the mid-seventies, which resulted in government spending being slashed, tripling taxes on the salaried classes and cancelation of public projects

Popular discontent was now brewing in Iran by the mid-seventies, angered by the Anglo-American domination of Iran's oil and the fact that the US was perceived to be benefiting from Iran's wealth. Cronyism, corruption and repression had come to be the hallmark of the Shah's regime. The Shah responded by imposing harsh measures, including news censorship. Most of all he used suppression as a tool to deal with discontent, particularly thorough his feared secret security agency, the SAVAK. This alienated people across the political spectrum and led to the beginning of unusual alliances between different and even contradictory factions in Iranian society.

This all culminated public dissent and by 1978 in a series of general strikes by workers across the country, including some 30,000 oil workers, which brought the Iranian economy to its knees. The Shah's forces killed ordinary people by firing into crowds in his attempt to cling to power but with millions

marching openly he was forced to flee in January 1979.

The Shah also began dreaming of a future independent from America by the late 1960s. His policies began focusing on turning Iran into a regional power, willing to compete with America for influence in the greater Middle East, and he began spending large amounts of money to build the strongest army in his region. America did not like this as it threatened to upset the regional balance of power. When the Shah also began threatening America, his fate was sealed. In an interview with US News and World Magazine in 1976 the Shah said about America's power and influence in Iran: *"But if you try to take an unfriendly attitude toward my country, we can hurt you as badly if not more so than you can hurt us. Not just through oil - we can create trouble for you in the region. If you force us to change our friendly attitude, the repercussions will be immeasurable."*<sup>27</sup>



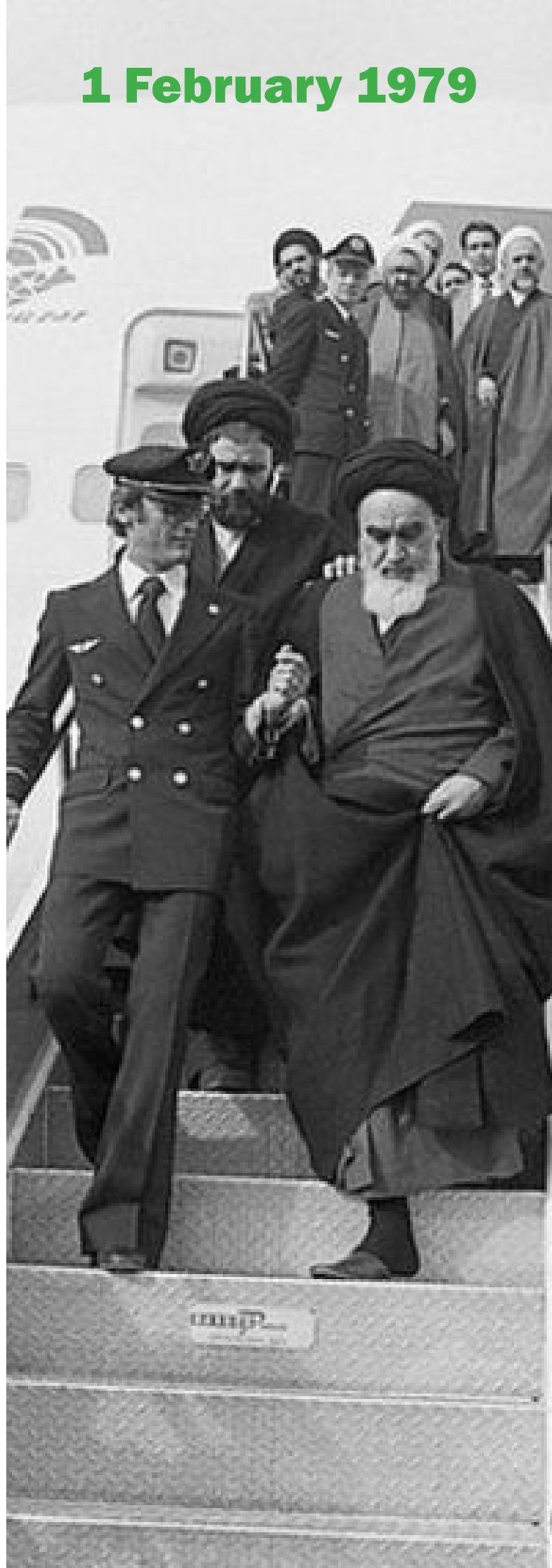
# 1 February 1979

Whilst many different groups came together to overthrow the Shah much of the opposition was too weak to take over after the Shah, even the communist opposition closely aligned with the Soviet Union did not have enough support through the country to take power. This Islamic opposition was led by Ayatollah Ruhollah Khomeini, who had lived in Najaf, Iraq, for many years, from where he organised his opposition to the Shah. In 1978, however, Saddam Hussein expelled him, following which he took up residence in a suburb of Paris, France in Neauphle-le-Château.

Despite the revolution being considered as an Islamic one, the groups involved were mostly non-Islamic and included communists, academics, leftists, unions and many others who were not looking for an Islamic revolution. Once in power Islam was the last thing on Khomeini's mind, despite much hope for change amongst the people. Ayatollah Khomeini came to symbolise 'change'. What united the people of Iran around the revolution was everyone wanted change, the Shah had not delivered on his promises, and any person could have become the leader, as long as they condemned the Shah. The revolution marked a change from one extreme to another. Almost overnight women went from being able to wear the latest western fashion items to being forced to wear the black chador or long dress and headscarf.

***Despite the revolution being considered as an Islamic one, the groups involved were mostly non-Islamic and included communists, academics, leftists, unions and many others who were not looking for an Islamic revolution.***

As soon as the Islamic revolution was in full swing cracks began to appear with the groups that brought Khomeini to power. What began as an anti-dictatorial popular revolution based on a broad coalition of all anti-Shah forces was soon transformed into a power grab. Except for some of Khomeini's core supporters, the members of the coalition thought Khomeini intended to be more a spiritual guide than a ruler. However, his core supporters took positions in important offices whilst many of those who had sacrificed to bring Khomeini to power found they were exiled, imprisoned or side-lined.



## The Rule of the Clerics



Today Iran's political system is dominated by the clerics that participated in the Iranian revolution to oust the Shah in 1979. The Iranian political system is a labyrinth of competing institutions made up of elected, quasi-elected and appointed officials. It is difficult to brand the Islamic republic as a pure theocracy, democracy or even an oligarchy. In reality, it is a blend of all three, where power traditionally has been concentrated in the hands of an elite and the right to rule comes from a mixture of divine right and the people. They created a political framework which has allowed them to dominate Iran and its politics ever since. At the apex of this system is the most powerful individual, the supreme leader, a position that has thus far been held by only two individuals. The first was the founder of the Islamic republic, Ayatollah Khomeini, who held the post from 1979 until his death in 1989. He was succeeded by his key aide and a former two-term president, Ayatollah Ali Khamenei, who has been supreme leader for the past three decades and is currently still in authority. The supreme leader is not elected by a public vote but rather by the Assembly of Experts, which is a group of high clerics. He has vast powers and appoints the leadership of the country's most powerful political institutions, including the state broadcasting, the Joint Staff, the Islamic Revolutionary Guards Corps (IRGC) and the Guardians Council.

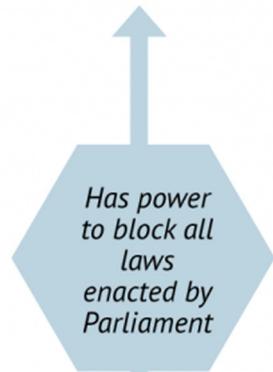
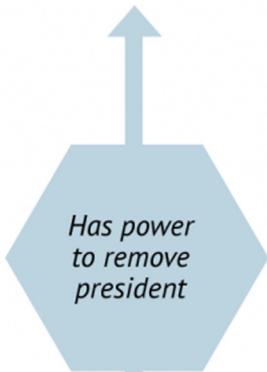
***“They created a political framework which has allowed them to dominate Iran and its politics ever since. At the apex of this system is the most powerful individual, the supreme leader, a position that has thus far been held by only two individuals.”***

Iran's political system was intended to be one in which the masses were not as alienated as they were under the shah, and one that would be dominated by the clerics. Trying to maintain a balance between these objectives has resulted in a state structure that has become increasingly convoluted and led to the birth of rivals, political personalities, factions and institutions. Though the supreme leader is the one with the most power, he depends on support from other key stakeholders in the system to maintain his position at the apex. Likewise, policymaking has been a function of the supreme leader's ability to pull all the various forces together and achieve consensus.

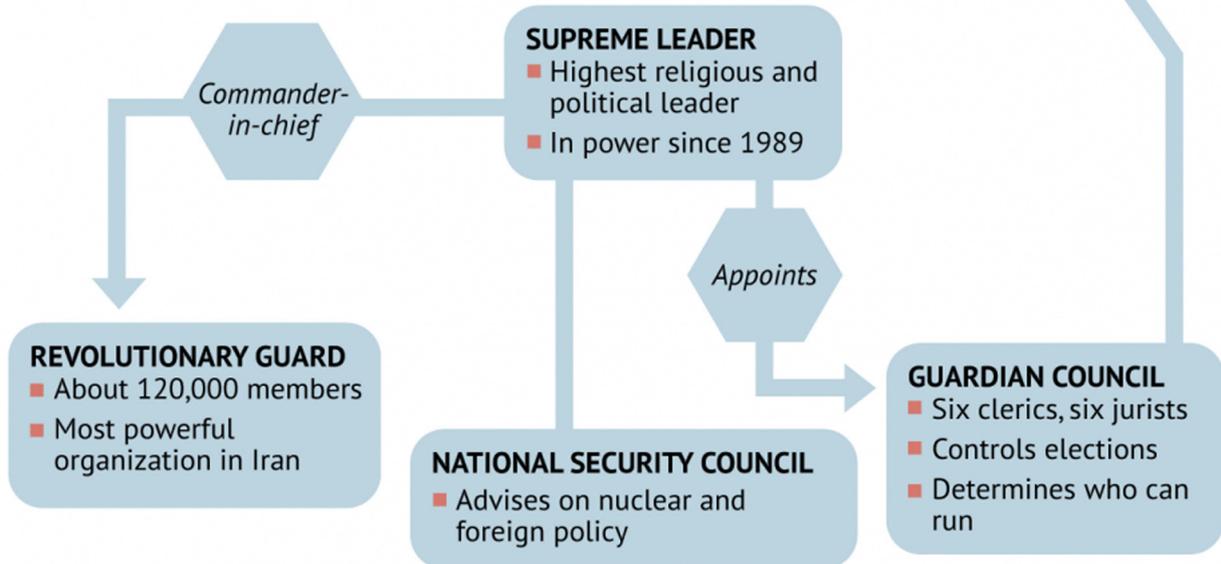
# Iran's Political Structure

Iran is ruled from the top by the supreme leader, Ali Khamenei. Khamenei's power extends in all directions.

## ELECTED POSITIONS



## NON-ELECTED POSITIONS



Source: The New York Times, The Washington Post, Karim Sadjapour, Carnegie Endowment for International Peace, Said A. Arjomand, State University at Stony Brook



# The Middle East from Tehran

Iran is always accused of wanting to dominate the region, a supporter of terrorism and a player that causes instability in the region, but the Middle East from Tehran looks much different. Iran and Persia before it, has played a central role in the region. Persia was a super power in antiquity and in the modern era Iran's energy resources rendered it an influential power in the region. The Persian Gulf and its coastal areas are the world's largest single source of oil and gas. 25% of the world's daily oil production, 66% of the world's oil reserves and 35% of the world's natural gas reserves are in the Persian Gulf. Of these Iran possesses 10% of global oil reserves, produces 5.2% of daily oil production and possesses the world's largest gas field – South Pars. The Persian Gulf also possesses the Strait of Hormuz, which is a chokepoint for global energy, 35% of all seaborne traded oil crosses the region.

From Iran's perspective these strategic strengths always need to be protected from the preying eyes in the region and beyond. For Iran this is best achieved by remaining the dominant power in the region through spreading its influence. Iran has worked to expand its influence throughout the Middle East and developed a whole host of political plans to achieve this. Iranian Foreign Minister Manouchehr Mottaki, said in 2009: *“Iran is emerging as a regional super-power given the increased role Tehran plays in international affairs.”*<sup>28</sup> Mahmoud Ahmadinejad said: *“We are rapidly becoming a superpower. Our strength does not come from military weapons or an economic capability. Our power comes from our capability to influence the hearts and souls of people, and this scares them.”*<sup>29</sup>

Iran's main tools to achieve these goals include making itself the official representative of the Shi'ah globally i.e. the Shi'ah crescent and using this as a pretext to interfere in countries with significant Shi'ah populations. This is a key aspect of Iran's strategy to deal with Saudi Arabia. As Saudi Arabia's Eastern prov-

inces are where the Shi'ah mainly reside and are also the areas that contain Saudi's oil fields. Iran has on a number of occasions supported uprisings in order to weaken Saudi Arabia. A similar policy has been used in Bahrain where a Sunni minority rules over a Shi'ah majority. One of the reasons Saudi immediately sent troops into Bahrain during the Arab spring was due to the fact that Iran would use the instability to weaken the rulers of Bahrain.

Like Iran the Zionist entity also has ambitions to dominate the region. To deal with the Zionist entity, Iran established Hizbullah in Lebanon in the early 1980's, it trained and armed Hizbullah to carry out an armed insurrection against the Zionist entity in order to weaken it and contain it. Similarly, in Palestine the Iranian regime armed Hamas and provided training to the movement. Although now Hamas has broken ranks with Iran since the war in Syria began. Establishing proxy groups is a central strategy of Iran and this has been a consistent feature in Iran's foreign policy.

The Iranian regime maintains close ties with the Syrian leadership in order to act as a bloc in the region. These ties included military, economic and political ties. Iran did the heavy lifting during the Arab Spring uprising in Syria. Without Iranian intervention through deploying its Revolutionary guards (IRGC) the Syrian regime would have collapsed.

Iran's major challenges in the region include Saudi Arabia and the Zionist entity - who are also attempting to spread their influence in the region. Iran also faces challenges from the world's superpower the US, who does not want to share the region with anyone.



A photograph showing John Kerry on the left and Ali Akbar Salehi on the right, both in suits, sitting at a table with the US and Iranian flags in the background. They appear to be in a formal meeting or negotiation.

# Dealing with the Superpower

Iran's policy has shifted between not trusting the US and trying to engage with the US, in order that it is taken seriously in the region. In a BBC documentary in 2009 on the 30th anniversary of the Iranian revolution Muhammad Khatami, president from 1997-2005 outlined the various attempts by his administration to normalise relations with the US. Khatami outlined Iran's sharing of intelligence with the US on targets in Afghanistan after the US led invasion. Khatami highlighted Iran's central role to the Northern alliance taking over Kabul and the help Iran gave the US to create the new government in Kabul. Khatami said that if the US attacked the Taliban this would be in Iran's interests. On the issue of Iraq, the BBC documentary included an interview with Khatami and quoted him: *"Saddam Hussein was our enemy, we wanted him destroyed, let's repeat the Afghanistan experience in Iraq, let's make it 6 plus 6, the six countries bordering Iraq and America and the security council members and Egypt - look at Iran as a power that can solve problems rather than as a problem itself."* Whilst Iran was keen to take part in removing Saddam Husain, the US spurned the countries help. Despite this it was Iran's patron the Islamic Supreme Council of Iraq (ISCI), a group created in Tehran in 1982 that gathered the Shi'ah factions to join in the US constructed political system. This then ended the insurgency in the South of Iraq and allowed US forces to concentrate on the insurgency in central Iraq. Through promises of positions in government, bribes and rewards the US co-opted pro-Iran elements into its solution for Iraq. Iran came to America's rescue when it could have bled the US to death.

Iran's pursued a nuclear programme in order to strengthen itself in the region especially as it became clear that any normalisation with the US was very unlikely. When Iran's nuclear programme came to light in 2003, the US argued this was not conducive to regional peace and that Iran should not be allowed to possess nuclear weapons and through negotiations the US was prepared to give Iran incentives to give up its nuclear programme. These negotiations took

place originally through the EU and then the P5+1 group – the permanent members of the UN Security Council and Germany. These talks have been constantly stalled by the US as it does not actually directly participate in them and never agrees to any of the deals reached. The US has exploited the issue to achieve many of its other aims in the Middle East, which include using Iran's threat to gain influence of the Gulf States, who fear Iran in the region. The US also uses Iran's development of nuclear weapons to justify its presence in the region and its continued increase in its defence budget. It should be remembered that Iran's nuclear weapons are in order to strengthen its position in the region, once Iran has successfully enriched sufficient uranium and tested a nuclear device this will completely alter the military balance in the region.



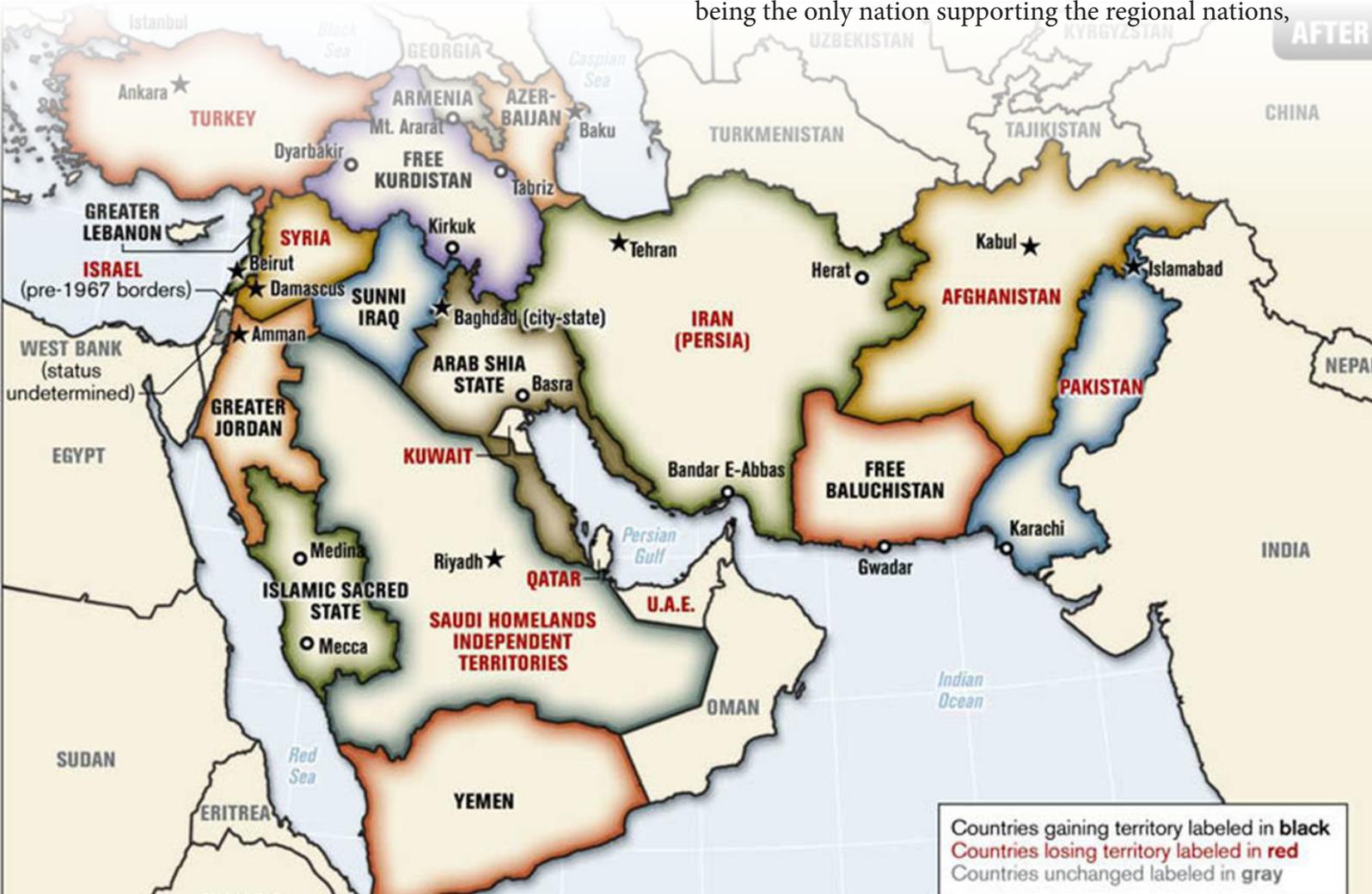


# CASE STUDY: The Middle East from Washington

America's fundamental challenge has been on how to deal with Iran's ambitions and as a result US policy has regularly shifted from containment, engagement and aggressive bellicose language. Iran's ambitions to dominate the region directly conflict with US aims in the region and this has always been America's fundamental problem with Iran. On many occasions the US has been able to use Iran to achieve its aims in the region, however many within the US political class do not trust Iran and as a result attempts to normalise relations with Iran have never been successful due to the opposition within America's political class. The quagmire in Iraq and then Afghanistan and then in Syria, forced America to engage with Iran as it needed to save itself in the region, after struggling to achieve its goals. The threats of regime change by the Neoconservative administration very quickly gave way to engagement with Iran on common issues. America's fundamental problem is how to deal with Iran, should they be engaged with in order to influence them or should they be contained as they have regional ambitions.

America until now achieved much of its interests in the Middle East by creating a balance of power in the region through supporting different nations against each other. The US needs to contain Zionist expansion in the region, for which Iran has played a central role. It has also needed to contain Iranian ambitions for which the US uses the Zionist entity. To stem both nations the US supports Saudi Arabia, who in turn supports and provides arms to groups in the region against both nations. This ensures the US doesn't need to militarily intervene (or intervene in large numbers). This also explains why the US has always been against the Zionist entities continued push for military strikes on Iran's nuclear installations as this would significantly strengthen the Zionist entity. For the US, Iran's ambition of a Shi'ah crescent cuts right through the Muslim world and this sectarian division keeps the Ummah not just divided on sectarian lines but pitted against the Shi'ah rather than the West .

For the US this threat aids it in interfering in the region being the only nation supporting the regional nations,





## Economic Mismanagement

Since 1979 revolution, the Iranian economy has been beset by a costly eight-year war, unremitting international pressure and isolation and conflict. The revolutionaries clashed over what constituted an Islamic economy— and whether growth or social justice should be a top priority. Iran's reliance on oil revenues put the state at the mercy of energy market fluctuations, with prices below \$10 per barrel in 1999 and above \$145 per barrel in 2008.

The clerics immediately nationalised all industry and all Iranian banks. The new constitution divided the economy into three different sectors, namely 'State,' 'Cooperative' and 'Private,' with the majority being state-owned businesses. The Government started using central planning to control the economy, having the Supreme Leader, the President and Majlis creating five-year socio-economic plans. The state took control of setting prices and subsidies.

The government's long-term objectives since the revolution have been economic independence, full employment, and a comfortable standard of living for citizens, but at the end of the 20th century, the country's economy faced many obstacles. Iran's population more than doubled between 1980 and 2000 and grew increasingly younger. Although a relatively large number of Iranians are farmers, agricultural production has consistently fallen since the 1960s. By the late 1990s, Iran had become a major importer of food. At that time, economic hardship in the countryside resulted in vast numbers of people moving to cities.

Economic policies established during the revolution were strengthened after Iraq's 1980 invasion. The eight-year conflict provided a convenient excuse for expansion of the state sector and the precipitous decline in general living standards. Meeting the demands of major combat initially boosted Iran's manufacturing output. But the oil sector never fully recovered from the revolutionary turmoil. The 1985

collapse in oil prices severely constrained Iran's capacity to import goods required to maintain industrial production.

The 1988 decision to accept a cease-fire with Iraq reflected recognition that the country could not afford the war's toll on the economy or society. The costs were enormous: Productivity plummeted. Urban poverty doubled and price controls and strict rationing of basic consumer goods failed to prevent rampant inflation. Meanwhile, the factional battles over the economy polarised the political environment eroded what was left of the private sector.

After the war ended reconstruction, investment and relaxation of government restrictions helped generate economic activity. The progress ran aground, however, as a result of policy miscalculations and political tensions. Massive increases in government spending and private consumption fanned inflation, prompting riots in a number of Iranian cities throughout this period.

Ahmadinejad's 2005 presidential campaign emphasised economic themes with populist appeal. He pledged to distribute oil revenues to the entire population and pointed to his modest lifestyle compared with his rivals. He assumed office at the height of a substantial increase in oil prices, which sustained illusory growth rates and brought an epic influx of revenues and foreign exchange.

By 2012 the US and EU tightened sanctions on Iran. These sanctions cost Iran billions of dollars in oil revenue and put a strain on the economy. Ahmadinejad also increasingly come under fire for his economic policies. His attempt to reform Iran's costly subsidies on energy, foodstuffs, and other goods was much more costly than anticipated. These initiatives contributed to Iran's rising inflation rate, which soared to nearly 40% by 2013.

Iran's population has doubled from 40 million in 1979 to over 80 million today. This means 53 million (66%) of Iran's population was born after the revolution and see older clerics dominating the countries politics and constantly being told to be loyal to the regime who managed to save the nation. 30 million Iranians live in poverty and do not see the economy or their situation changing any time soon.

# 40 Years Old

Forty years after the 1979, the Iranian revolution which is a mix of Shi'ah Islam, nationalism and pride and honour it has exhausted itself as a legitimising force for Iran. Studies sponsored by the Iranian government show that resentment toward the state's religious symbols is at an all-time high. According to the research arm of the Iranian parliament, around 70% of Iranian women do not strictly follow the official diktats of the state. Anti-clerical sentiments have turned violent. Regardless of their ties to the government, clerics are routinely attacked and stabbed in the streets by angry anti-regime individuals. Iran has survived because its leaders have been able to manage public sentiments and intra-elite conflicts with its security apparatus playing a central role.

How do Iranians feel about the rule of the clerics on its 40th anniversary?

When the regime removed fuel subsidies in November 2019 that led to a 200% increase in fuel prices. Protests in Iran took place in multiple cities across the country and extended to an outcry against the current regime and Supreme Leader Ali Khamenei.

The protests commenced on 15 November 2019 and within hours spread to 21 cities as videos of the protest began to circulate online. In order to block the sharing of information regarding the protests and the deaths of hundreds of protesters on social media platforms, the government blocked the Internet nationwide, resulting in a near-total internet blackout of around six days. President Hassan Rouhani said, *"Iran is experiencing one of its hardest years since the 1979 Islamic revolution."*<sup>31</sup>

Many in Iran have been left behind after decades of clerical rule. A rule that is cloaked with Islamic symbols, nationalism and history, but which in reality protects the position of the clerics, much like the Saud's in Saudi Arabia. The clerics have lasted this long as they have been able to build a security apparatus around themselves which protects their rule. They have crafted an economy where they control 70% of economic activity.

How long this can last is really anyone's guess, what is for sure, it is less and less representative of the Iranian people.

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## CASE STUDY: The IRGC - Iran's Foreign Legion

The Islamic Revolutionary Guard Corps (IRGC) was formed in May 1979 following the Iranian revolution in order to protect the newly founded regime. As the intelligence services and armed forces were stacked with personnel from the Shah's era, similar to Hitler's SS the IRGC is the clerical regime's first and last line of defence. During the 1980s, the IRGC fought against insurgencies and took a lead role in the Iran-Iraq War. These experiences helped the IRGC become the core of the Iranian national security and foreign policy establishment. Although the IRGC operates independently of the regular armed forces, it is effectively a military force in its own right due to its important role in Iranian defence. The IRGC consists of ground, naval, and aviation forces, which parallel the structure of the regular military. Currently, the IRGC comprises 125,000 members and continues to derive its legitimacy from the clerical elite, led by Iranian Supreme Leader Ayatollah Ali Khamenei, who maintains ultimate authority in Iranian politics. IRGC generals are appointed by Khamenei, the group's commander in chief, not the civilian government.

The al-Quds Force, a component of the IRGC, has formed pro-Iran militias in foreign countries. The core operatives of the Quds Force comprises only a few thousand highly skilled and dedicated specialists. The core personnel are considered to be highly educated, most speak foreign languages, and are all supporters of Iranian national and regional ambitions. The Quds Force biggest success has been in Lebanon, where they helped local Shi'ah form Hizbullah, which has come to play a central role in Lebanese politics and in maintaining Iranian influence. In Syria, the al-Quds branch played a key role in maintaining the regime of Bashar al-Assad.

The IRGC also has a paramilitary force of 100,000 personnel to deal with any anti-government activity inside Iran. To assist them, the Basij Forces (Mobilisation Resistance Force), was created which is a network of potentially up to a million active individ-

uals who could be called upon when street muscle is required. The Basij could be committed to assist in the defence of the country against internal or external threats, but by 2008 it had also been deployed in mobilising voters in elections and alleged tampering during such activities. The Basij are usually young, ideological men, who are not afraid to get their hands dirty. If opponents to the government stage a large demonstration, it will often be broken up by Basij, in civilian outfits, using fists and clubs.

Over the decades the IRGC has expanded and gained influence — in some cases, control — over domestic law enforcement, foreign intelligence operations, strategic military command and the national economy. Today the IRGC has a robust economic portfolio. Many IRGC commanders retire relatively early, usually at 50 years old and join Iran's political and economic elite. Former IRGC commanders now dominate heavy industries, including the construction industry, and civilians operating in these industries are subordinate to IRGC elements. The group also generates revenue through illicit channels. Its mandate for border security enables the group to run massive smuggling operations. In these operations, IRGC troops move luxury goods and illegal drugs (especially Afghan heroin), charge port fees and receive bribes. The proceeds from these activities augment the funds appropriated to the IRGC by the civilian government.

The IRGC is Iran's most cohesive institution which in turn has led it to eclipse many other institutions and dominate Iran's security, military and economic landscape. It continues to maintain loyalty to the clerical leadership and its importance can be seen from the fact that the IRGC, rather than the countries conventional forces maintain the country's ballistic missiles. With demonstrations taking place in Iran the IRGC as the most efficient component of the state apparatus and guardian of Iranian security will play a central in defending the clerical regime.



# Capitalism in Crisis??

In November 2019 on the 30th anniversary of the fall of the Berlin wall and after three decades of proclaiming the end of history, the intellectual, Francis Fukuyama was forced to eat his own words, in an interview he admitted: *“At this juncture, it seems to me that certain things Karl Marx said are turning out to be true. He talked about the crisis of overproduction... that workers would be impoverished and there would be insufficient demand... The Chinese are arguing openly that it [economic model] is a superior one because they can guarantee stability and economic growth over the long run in a way that democracy can’t... I would say they’ve got a real argument.”*<sup>32</sup> The end of history has not turned out the way Fukuyama had thought it would. After the collapse of the Soviet Union in 1991, liberalism was considered to be the last ide-

ology left standing. But in the past few years extreme climatic, social, economic and political conditions have all converged to put Western civilisation under extreme strain and it has been often exposed to have little or no clue on how to resolve the multitude of problems that stem from the interdependencies of these extreme conditions.

Since the ashes of WW2 in 1945 the world was shifting to an international capitalism-based rules order. Global institutions would replace national unilateralism that caused the world wars, free markets would replace protectionism and trade barriers and economic prosperity would replace nationalistic trade wars. When the Berlin wall was torn down the forward march of technology, telecommunications and global supply chains from Mexico to Malaysia was meant to break down barriers

to global free trade. But now the opposite has happened, instead of nation states shrinking and markets getting bigger, the opposite has now begun to occur. Globalisation is now under siege for failing to deliver beyond the 1% and state sponsored mercantilism akin to the pre 20th century is now the dominant model of our age.

The key institutions and values that underpinned much of the global order are now in crisis. The global order is in flux. The public turning to reality TV stars and comedians to govern them over orthodox politicians. From the breakdown of globalisation to naked nationalism, cataclysmic fault lines are emerging leading to multiple crises that transcend national borders and will potentially be destructive.



# Identity Politics

Ever since homo sapiens emerged on earth identity politics began. Nearly 100,000 years ago you were defined by the place you were born in and the language your mother spoke. Since the beginning of civilisation, human beings organised themselves to live in families that were part of clans and where groups of clans formed tribes. These tribes were organised along certain traits and characteristics – nationalism, patriotism, a creed, racism or superiority. On several occasions empires emerged that completely transcended across such groupings, the Roman Empire being one. These groupings did not live in isolation but were forced by the dynamics of life to interact and compete with each other. This competition over wealth, resources, land, geography, honour, prestige, power and supremacy constantly led to local, regional and global wars.

The human race since the beginning of time fought for their tribe, their race and for their nation. Many of these wars took place over things one could not even choose, such as where you were born, the colour of your skin, race or tribe. One's bloodline, colour and heritage were more important than ideas, beliefs or competency.

This identity-based system resulted in nationalism, sectarianism and tribalism which led to wars, savagery, brutality and much bloodshed. These ideas have superiority in their foundations, and this drove many to attack other races in the name of superiority. It caused the massacre and virtual extinction of the indigenous Native American Indians in the Americas. It caused the massacre of Aborigines in Australia and New Zealand. It caused the Holocaust in Europe and genocide in Africa and the Balkans. It is also what caused the enslavement of the people of Africa.

The Enlightenment forged in the 16th and 17th centuries was meant to usher in an era where societies were structured differently. Human beings would evolve into something bigger and better after the horrors of what we had seen in prior ages. The Enlightenment was going to create a world character-

ised by common ideas, values and beliefs about how societies should be run. This meant people could rise to higher levels and not be bound by their place of birth, colour or race but with such common ideals and values the world would cooperate and become a world for common prosperity rather than a fight to the bottom. The former savagery would be restricted to sporting events rather than the fields of war and battle.

The forward march of the microchip which has given us the telecommunications revolution, which gave us the internet, all this meant information and knowledge would be a peoples fingertips making the world a better place where all are smarter and make a contribution to civilisation.

***“History has shown us time and time again that unfettered nationalism if not checked are the paths to systematic violence and the massacre of minorities at the hands of the majority.”***

But today the complete opposite is happening.

Much of the world is turning back to populism, fascism and naked racism. US president Donald Trump labelled Mexicans as rapists and Muslims as national security threats. Europe which was the epicentre for the holocaust is home to far-right fanatics who are not just doing well in elections but increasing their seats in national politics. After a decade of austerity people should be turning on their Politicians, civil servants and those who implemented these policies but instead many are tuning on immigrants, foreigners and Muslims.

History has shown us such impulses only go in one direction. Such sentiments and emotions left unchecked lead to what we saw in Pittsburgh, Christchurch and Colombo. History has shown us time and time again that unfettered nationalism if not checked are the paths to systematic violence and the massacre of minorities at the hands of the majority.

# Democracy in Crisis



Democracy started as an experiment in Athens over two thousand years ago and eventually pervaded every continent and every land. Democracy means different things to different people; Western secular societies do not have a monopoly on claiming democracy as their own. Many communist countries during the Cold War era described themselves as democratic republics; and even Saddam Hussein's Iraq had presidential elections. Others view democracy as more than just elections - that democracies should be characterised by other values and institutions. That alongside regular elections there must be liberal values, a functioning legislative chamber, a vibrant opposition, a free media, civil society and an independent judiciary. But whatever the minute differences, all those who believe in democracy take the political system that institutionalised legislative sovereignty - in either the people directly or in their elected representatives to be the basis - i.e. the ability to choose and enact legislation is the key characteristic of democracy.

There have been many political systems throughout history. Different groups of people living on the same land, larger populations and the complex issues these brought advanced political system were needed. Until the emergence of democracy monarchies, autocrats, religious rulers etc. All of these were very inconsistent systems and were even more brutal upon the people as they relied upon a single sole monarch, dictator or cleric. Other systems emerged which were based on some deep thinking and came to be defined with values, but were no less violent. Many of these systems were advanced via colonialism, gulags or genocide.

The US President Abraham Lincoln made his famous Gettysburg speech in 1863 about a *"system of the people, by the people and for the people."* A system where no one was superior to another, where everyone was free and where decisions were made for the

benefit of the many not the few. The forward momentum of this core idea was meant to put in history the archaic systems that came before it.

This mantra was repeated again when the Berlin Wall came down in 1989, but in practice it's been extremely difficult to implement. Democracy is today drowning in its own theoretical foundations. Whilst all would agree that their leaders should be elected, the reality of democracy is that regular elections favour those with money and adversely impact tough long-term decision making. The frequency of elections has come to bias politicians against tackling long-term challenges and instead to focus on short-term popularity. The more elections there are the more national democracies have become poisoned with money and short-term thinking. This is why Winston Churchill observed in 1947: *"No-one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of Government except all those other forms that have been tried from time to time."*<sup>33</sup>

In much of the developed world a select group of people have come to dominate the political systems: it has become a system for the oligarchs and by the



oligarchs. Democracy has today become a system which systematically rewards its elites through tax cuts, regulation and security at the expense of the majority, even when it has meant debts and deficits. It's no wonder Nobel laureate economist Joseph Stiglitz now says: *"For 40 years, elites in rich and poor countries alike promised that neoliberal policies would lead to faster economic growth, and that the benefits would trickle down so that everyone, including the poorest, would be better off Now that the evidence is in, is it any wonder that trust in elites and confidence in democracy have plummeted."*<sup>234</sup>

Whilst many countries claim their systems are of, by and for the people, in reality the people being cited are a select group. The control of the developed world is largely now become a system of oligarchs, for the oligarchs and by oligarchs. The gap between the rhetoric and the reality is plain to see This is no different from other famous civilisations in history from the Ancient Greeks, to the Romans and the Persians who had the same oligarchical system while throwing out some crumbs for the rest of their populations.

When things go wrong, or ordinary people don't get what they were promised, they then blame immigrants or scapegoat foreigners and then blame the inevitable austerity on the lack of money. What we are seeing now is the systematic outsourcing of political decision making to lobbyists, large companies and the extremely wealthy at the expense of everyone else.

Today politicians are more hated than debt collectors as they have failed to deliver. Anger at political elites and economic dissatisfaction has fuelled political upheaval across the world. Anti-establishment leaders, parties and movements have emerged on both the right and left of the political spectrum, in some cases challenging fundamental norms and institutions of liberal democracy. Organisations that document democracy are reporting global declines in the health of democracy. What we are now seeing is the agreed mechanism to solve societal problems is turning into chaos and dysfunction and that's why we are seeing the emergence of the Yellow Jackets movement in France and occupy Wall street in the US.

***"What we are now seeing is the agreed mechanism to solve societal problems is turning into chaos and dysfunction and that's why we are seeing the emergence of the Yellow Jackets movement in France and occupy Wall street in the US."***





# Global Inequality

Capitalism we have been told has been the most successful system of organising the market in history. The number of people who have been moved out of poverty into prosperity, the sheer amount of wealth in the world, life expectancy and technological development has all been thanks to capitalism and its unfettered free markets, commodification and free trade.

But the world in which we live in today paints a very different picture.

Tonight, half of the world, 3.8 billion people, will not be having dinner as they are too poor. More people have access to mobile phones than toilets. Shockingly, a mere 1% of the world's population now captures 82% of global wealth. Unilever's former boss now calls capitalism a damaged ideology. *"Capitalism, which has been responsible for the growth and prosperity that has done so much to enhance our lives, is a damaged ideology and needs to be reinvented for the 21st century."*<sup>35</sup>

The problems globally today are not just in the third world, wealth inequality is even worse in the developed world. Thomas Piketty's book – *Capital in the Twenty-First Century* (published in 2013), exposed how bad wealth inequality is in the US and Europe. Piketty's conclusions were stark in that inequality is not an accident but

rather a feature of capitalism that can be reversed only through state intervention. Unless capitalism is reformed, the very democratic order will be threatened. Joseph Stiglitz confirmed: *"Well, after 40 years, the numbers are in: growth has slowed, and the fruits of that growth went overwhelmingly to a very few at the top. As wages stagnated and the stock market soared, income and wealth flowed up, rather than trickling down."*<sup>36</sup>

Global inequality has been getting worse. In 2006 the World Institute for Development Economics Research of the UN released the culmination of a global study. A number of its findings were staggering. By gathering research from countries all over the world the study concluded that the richest 1% of the world owned 40% of the planet's wealth and that only 10% of the world's population owned 85% of the world's assets.<sup>37</sup> In the 14 years since then this has got far worse. Richard Robbins in his award winning book 'Global Problems and the Culture of Capitalism' confirmed: *"The emergence of capitalism represents a culture that is in many ways is the most successful that has ever been deployed in terms of accommodating large numbers of individuals in relative and absolute comfort and luxury. It has not been as successful, however, in integrating all in equal measure, and its failure here remains one of its major prob-*

*lems.*" Perpetual economic growth i.e. wealth creation has failed to distribute wealth in any equitable manner and created the inequality problem in the world

Nobel Prize winners Paul Krugman and Joseph Stiglitz have accepted that inequality is a problem that must now be managed. In 2008 the global financial industry brought the world to its knees, since then more and more wealth is concentrated at the top and we have seen it for decades in the developing world which has been raped and plundered first by colonisation and then recently by globalisation.

What has taken place since the end of history in 1989 is plunder has become a way of life for a tiny elite, who over the course of two decades have created for themselves a legal system that authorises it and a morality that glorifies it. For them the world is full of cheap labour and is to be used to make profit, irrespective



of the consequences. This elite create products which pollute the air and seas. They speculate into financial products which have no real existence but give them exorbitant profits, whilst the vast majority struggle to make ends meet. In 2008 this tiny elite brought the world to its knees. The truth is the free market is really a licence for a small elite to plunder the rest of humanity.

**“The emergence of capitalism represents a culture that is in many ways is the most successful that has ever been deployed in terms of accommodating large numbers of individuals in relative and absolute comfort and luxury. It has not been as successful, however, in integrating all in equal measure, and its failure here remains one of its major problems.”**

In its January/February edition of 2016 the Foreign Affairs magazine investigated inequality in-depth. In his editorial comment chief-editor Gideon Rose explained why the magazine, which was established to analyse politics rather than economics, chose this surprising focus: *“The old story about frogs and boiling water is not true, of course: they will jump out of the pot if they can as the temperature rises. Democratic publics, increasingly feeling the heat, are unlikely to behave differently.”*<sup>38</sup> In other words, the

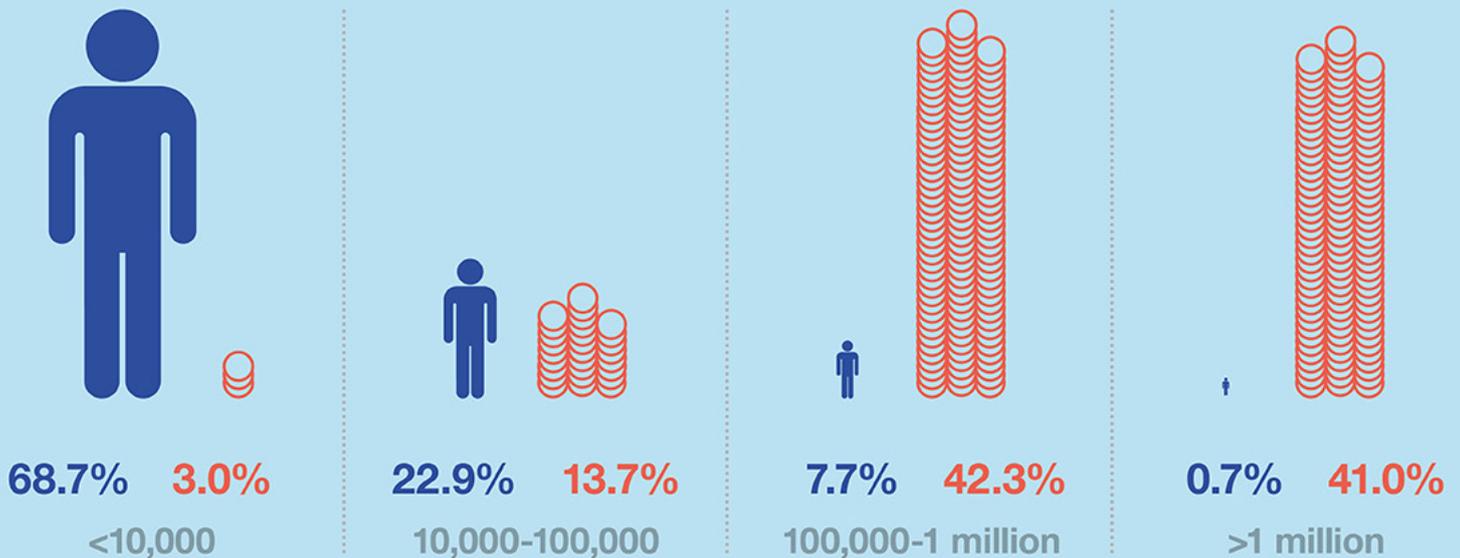
people behind Foreign Affairs magazine have concluded if something is not done about inequality, it might lead the people to abandon capitalism altogether, because inequality has been a major cause for revolutions throughout history.<sup>39</sup>

The global rich elite have locked in their advantages by heavily influencing political decisions through their influence within the global capitalist system. So far there is little to no indication of support for an anti-inequality, redistribution policy amongst today’s elites. While talk is abundant, no practical actions have been taken so far. News and media reports from the US as well as much of the world are all about an intent to continue the conventional capitalist economic policies that have established today’s unequal world.

Many can now see that national governments really work for the interests of the top 1% and manage the rest. Many can now see they have been left behind as a few people who can be fitted onto a bus benefited immensely at the expense of the rest. History is littered with examples of elites preferring their own short-term benefits over the rest and this inequality lies at the heart of nearly every popular revolution in mankind.

# How is the world’s wealth shared amongst its population?

 % of the world's population     % of the world's wealth



“Wealth” is defined as the marketable value of financial assets plus non-financial assets (principally housing and land) owned by an adult, less debts  
Source: Global Wealth Report 2013. Zurich: Crédit Suisse

Wealth (USD)



# Environmental Degradation

The focus on perpetual economic growth created another problem. Perpetual economic growth was one of the reasons that led to the rapid industrialisation in the 18th century. The emissions from factories and then the rapid increase in the use of coal, then oil and eventually gas for energy led to global emissions to frantically increase. There is broadly an agreement that these fossil emissions i.e. human activity has led to a rise in global temperatures and is causing the widespread climate problems. As capitalism placed perpetual economic growth as the overwhelming purpose of a liberal economy, cutting emissions, though reducing production is taboo as this would halt economic growth. This is why emission reduction targets are voluntary and each meeting on climate change merely ends with discussions on when more efficient technology will be available that maintains current economic levels with less emissions. The need to perpetually grow, has contributed to global warming, a central tenant of liberal economic thought, solving it is impossible as it would entail contradicting this central value, this is why no solution has been reached.

The evidence on the environmental crisis cannot be understated, scientists believe with global temperatures rising fast, the ability to rescue the planet is fast diminishing. Yet despite these warnings there are many from the neoliberal capitalist school of free markets still dispute the science and continue to prioritise economic growth over environmental damage, especially in areas such as fossil fuels.

In May 2019 the results of the most thorough planetary health check ever undertaken by the world's leading scientists concluded that human society is in jeopardy from the accelerating decline of the Earth's natural life-support systems. From coral reefs flickering out beneath the oceans to rainforests desiccating into savannahs, nature is being destroyed at a rate tens to hundreds of times higher than the average over the past 10 million years, according to the UN global assessment report. The biomass of wild mammals has fallen by 82%, natural ecosystems have

lost about half their area and a million species are at risk of extinction – all largely as a result of human actions, said the study, compiled over three years by more than 450 scientists and diplomats.

*“The health of the ecosystems on which we and other species depend is deteriorating more rapidly than ever. We are eroding the very foundations of economies, livelihoods, food security, health and quality of life worldwide,”* said Robert Watson, the chair of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES). *“We have lost time. We must act now.”*

We now reside on a planet on which the human footprint is so large it leaves little space for anything else. Three-quarters of all land has been turned into farm fields, covered by concrete, swallowed up by dam reservoirs or otherwise significantly altered. Two-thirds of the marine environment has also been changed by fish farms, shipping routes, subsea mines and other projects. Three-quarters of rivers and lakes are used for crop or livestock cultivation. As a result, more than 500,000 species have insufficient habitats for long-term survival. Many are on course to disappear within decades.

***“The need to perpetually grow, has contributed to global warming, a central tenant of liberal economic thought, solving it is impossible as it would entail contradicting this central value, this is why no solution has been reached.”***

The developing world is facing the effects of the environmental problem as the developed world has been the main source of environmental damage since the industrial age. The cause of this destruction is clear – its humans. We are today cutting down our forests, overfishing our seas, polluting our rivers, degrading our soils and changing our climate. This poses an urgent threat to all life on Earth.



# Conclusion

The ideology of liberalism with its focus on individuals and their freedoms has been fantastic for the few but a misery for all the rest. Capitalism and Democracy have failed miserably, time and time again the world demonstrates that systems that its proponents argue works for the many, only in reality works for the few. The political ideas from liberalism is tailored for the rich and has the deepest disdain for the poor. Some continue to argue for capitalism, but many can see the emperor is wearing no clothes. This is why the only defence left is it's the best there is, no longer do many articulate arguments for how great capitalism is.

The political context across the globe is that of apathy and despair, regardless of the type of regime people live under; whether Democratic, dictatorship or

propped up rulers, the appetite for change is very much in the hearts of all people regardless of race or religion. Despite capitalism spreading its hegemony across the globe, the frustration of people is growing faster than its hegemony.

The appetite for change is witnessed by the rejection of traditional establishment figures although they have been replaced with new establishment figures. The fragility of the normal operating of these systems is seen in the Gilet Jaunes (Yellow Vests) protests in France against tax rises, nationwide protests in Sudan and protests in Jordan against austerity measures. The appetite for change will only increase as the economic situation sets to worsen globally and the basic cost of living for many more becomes unachievable.



# CASE STUDY: Capitalism's Heir

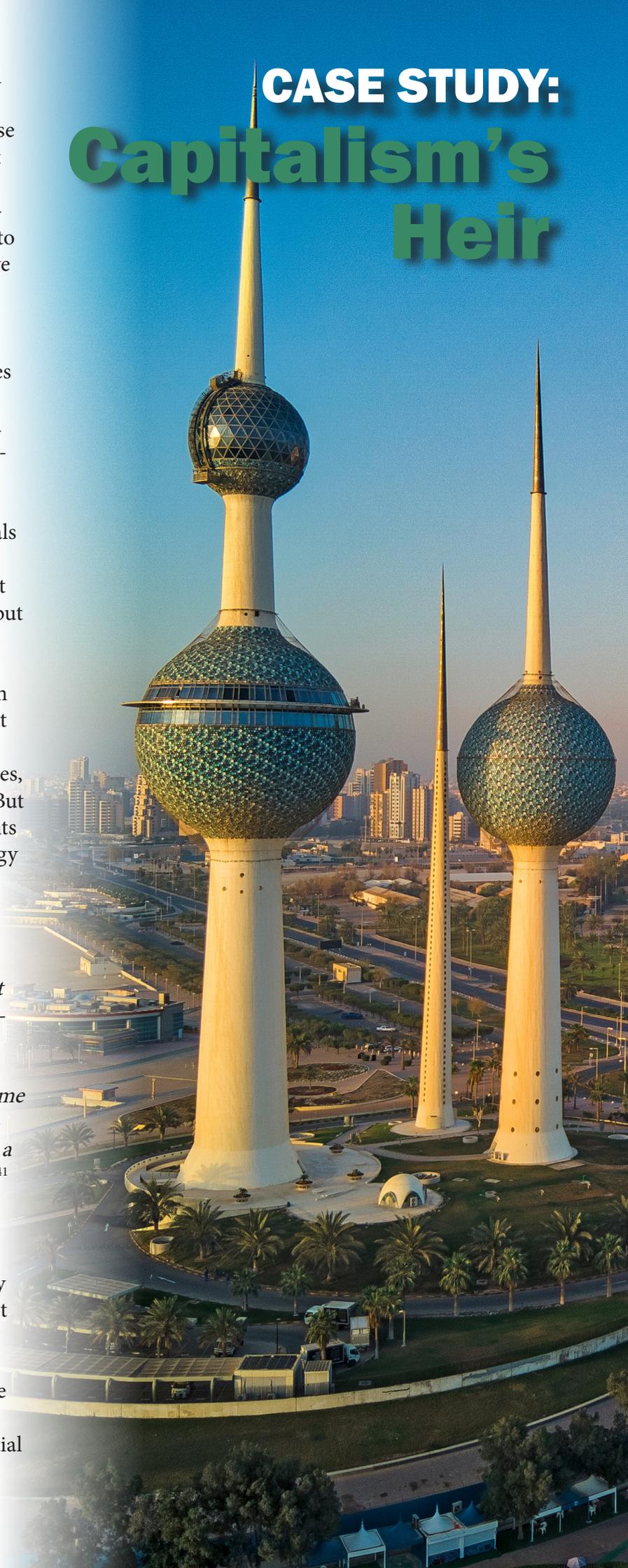
Debate continues across the world on what will one day replace capitalism as the world's dominant ideology. Just two decades after the collapse of the Soviet Union, and with it the communist ideology, much of the world was talking about the end of history and the victory of liberal values. But within a decade that quickly turned into 'the great disruption' and then to 'it's the best we have.' So what will possibly replace capitalism?

An ideology or value system has, in practice, only two sources. It is either revelatory or comes into existence in the mind of a human. The value system that originates from the mind of a human through enlightened and creative thinking is usually influenced by the environment in which it rises. Currently, capitalism dominates the world whilst communism lives in individuals but is practically not embraced by any state in the world. Islam is not adopted by any state, but rather by individuals within different peoples, but is present internationally.

Beyond these it is possible another value system or ideology could emerge. The green movement could establish a value system, which could arrange society around green and renewable values, this would then need to be adopted by a state. But it would seem the liberal elite, their governments and think tanks are in agreement which ideology possess a challenge to the liberal world order - this ideology is Islam.

The then Prime Minister of Britain, Gordon Brown encapsulated the Western position: *"But you will not win against extreme terrorist activities and particularly the propaganda activities, unless you have this battle of hearts and minds that is won. And that makes me think of the same cultural war that had to be fought against communism from the 1940s and 50s onwards, is in a sense the model for what we've got to do here."*<sup>211</sup>

Today the Muslims constitute nearly 2 billion people and despite a century of occupation, autocratic rulers and Western interference, they have held onto much of their values, despite not having a single state that represents their value system. All the attacks on Islam, propaganda, invasion of Muslim lands and accusations make very clear who the dominant ideologues of the world view as their main challenger and potential heir.



# Conclusions

The global balance of power is the superpower and the nations that compete with it. It is the distribution of power amongst the world's powers who engage in competition with each other. Strategic Estimate began tracking this balance of power in 2010 and much has changed in a decade. At the time the US was marred in the Iraq and Afghanistan wars, the global economic crisis was in full swing and both Russia and China were shifting from internal and domestic instability to taking advantage of US preoccupation in the Middle East. The Arab Spring was about to take place and Donald Trump was busy with reality TV.

Today the US is no longer the power it was a decade ago. US soft power was undermined by the US itself as it trampled over the very values it was propagating. The last decade has also seen the rise of the rest, who consider the US position untenable and overstretched. The US has been forced to adapt and the rise of Donald Trump has seen the abandonment of values promotion and a focus on naked and raw transactionalism and national interest. Although the US remains the global hegemon it suffers from the empire problem in that its global position is now impacting its domestic situation. Political paralysis, egos and personal promotion over national interest is dominating the US. For the moment this has not led to paralysis in foreign policy but on this trajectory, this is what it will lead to. President Trump's flip flopping, constant lies and personal attacks on his allies has made the US an unreliable partner in global affairs. Whilst this may be popular with the US public it makes for an unlikely partner for its allies. If anyone took advantage of this, the US will find itself in serious problems.

China in 2019 has reached a critical place in its trajectory, it can no longer rely upon the economic drive that gave it so much wealth. China's imperative to protect its supply lines makes it clash with the US, this is why the tariff war is really all about the global hegemon defending its position. China has put in place a strategy to untangle itself from the US and raise its global stature, for the moment, however, China remains a challenge to the US in one of the world's regions only, it lacks the capabilities or means to challenge the US elsewhere. Unless it can make its

strategic plans a success then it would be in a position to engage in global struggle with the US.

Russia in the last decade has managed to gain control over the problems that plagued it after the collapse of the Soviet Union, but despite all the media coverage and rhetoric that comes out of Moscow there is in reality no international struggle between Russia and the US. Russia despite making moves around the world many of these are for economic and commercial purposes, whilst others are to make Russia look strong. Nowhere has Russia been able to compete with US plans or impose Russia's agenda upon an issue. This all because Russia lacks the economic, military and political capabilities to do so. Russia cooperates with the US in issues which do not impinge on her national security. This has been the case in Syria, Libya, Egypt and Afghanistan. This cooperation achieves a host of financial, military and political interests for Russia, although it aids the US agenda.

The former powers of Britain and France are fast moving out of the world's premier nations as they lack the economic and military capabilities to strengthen their political plans. They will likely be replaced by regional powers who are able to build capabilities beyond their regions, there is a good chance their former colonies may outstrip them eventually.

Whilst the US position is waning, the US is still far ahead of the other powers in the world. China represents a regional threat to the US. It remains to be seen if any regional power can push beyond their regions and pose a direct challenge to the global superpower.





2020

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## ***Arab Spring 2.0***

Syria was the last remaining Arab Spring nation that was attempting to change the nation by overthrowing the regime. The long drawn out battle is now coming to and the regime has survived. But nearly a decade from the first wave of uprisings it would appear the second wave are now underway. Sudan, Algeria, Egypt, Iraq, Lebanon and now Iran are all experiencing uprisings again. Many of the underlying issues were never resolved and in a number of countries things are far worse today than a decade ago. In Algeria and Sudan there has been an open call for the military regimes to leave politics and in other nations the demand for an overhaul of the political system is being called for. The Sykes-Picot nation states established a century are now facing their most significant challenge.

## ***Latin America in Crisis***

South America is in flames. A wave of anti-government protests has ravaged the streets of Ecuador, Chile, Bolivia and Colombia in 2019. In Haiti, a starving populace rioted against the rising cost of fuel. Bolivians are protesting a disputed election. A subway fare hike was all people in Chile needed to vent their anger and suffer at least 26 deaths at the hands of security services. Latin America has been largely spared from international completion ever since the US forced the European imperialists out, but this instability may leave the door open for foreign powers such as China and Russia to interfere in America's backyard.

## ***Iran's Clerics Face Biggest Challenge***

Iran's clerical regime is experiencing its most significant test. Decades of economic mismanagement has now caught up with the clerical regime and the removal of subsidies was the final straw in 2019. With a population largely out of synch with its leaders the protests have spread into pro-regime areas and have seen a brutal crackdown by the regime. The main challenge for the regime is the protests could be used by foreign powers to interfere in the country, due to the size of the protests as well as grievances. The regime is well versed in putting down protests but if they spread in size and scope the clerical regime, that has lasted 40 years, may have its days numbered.

## ***Can Imran Khan Survive?***

A year into Imran Khans 'naya Pakistan' (new Pakistan) utopia, things are not looking good. Economic growth has halved, inflation is in double digit territory and the Pakistani public feel their captain talks the talk but is failing to deliver. Ostensibly Imran Khan has now been labelled U-turn Khan for rolling back against many of his campaign promises. India annexing Kashmir put Imran Khan in a difficult position as anything short of a military response has been seen as capitulation. Ever since Imran Khan has pursued a mythical narrative of Pakistan's weakness in the face of India which has removed the shine from Imran Khan's 'naya Pakistan'. The problems Imran Khan faces so early into his term mean he will unlikely finish the whole term and with no one from the elites of Pakistan waiting in the wings its likely Pakistan's turbulent politics is in for another rough ride in 2020.

## ***Can the US Win in Afghanistan?***

The Afghan war is now America's longest war in its history, longer than WW1 and WW2 combined. President Trump inherited the Afghan war which his predecessors failed to solve. Whilst Trump spoke about ending the war, he did a U-turn on this. Trump visited Afghanistan in December 2019, after years of facing criticism for not visiting America's warzones, Donald Trump made a secret three-and-a-half-hour visit to Kabul to publicise his personal efforts for negotiating a settlement with the Taliban. But in reality, the US faces considerable difficulties in achieving this aim, which Trump has actually not helped by his publicity-seeking interventions, which included using a tweet message to cancel discussions in September 2019. The reality on the ground is that the US are progressively losing Afghanistan to the Afghan jihad and they know it's only a matter of time before they are fully ejected and are desperate to conclude a peace agreement while they still have some control.

## ***China's Hong Kong Problem to Continue***

The turmoil in Hong Kong has been going on for months and shows no sign of abating. The global media has given the protests wall-to-wall coverage and the global powers are criticising China for its handling of the uprising. For China the protests contradict its message of unified and strong China that it has for long projected. In 2020 China will need to ensure the protests don't spread to mainland China. More importantly China will need to reassess its wait and see approach as the uprising is not showing any sign of running out of steam. Hong Kong is revealing another picture of China in that it's not a unified nation and that despite economic success people in Hong Kongers see themselves very differently to mainland China.

## ***America: The Worlds Largest Crude Producer***

For the first time since 1973, the US is the world's largest producer of crude oil. This changes the dynamics of oil producers where in the past Saudi Arabia held the top spot and had such a large say over oil price. This now means the US is not reliant like it used to be on oil wells very far from the US continent and as the world's largest oil producer it now has another tool it can use to influence those nations dependent upon oil imports.

## ***Tech Development Wars***

The US, Europe and China are officially at war over technological supremacy. More and more tech sectors are being classed as national and economic priorities, this will have a major impact on technology supply chains and future tech. We have already seen the auctions, rollout and infrastructure buildout for 5G data network cause tensions between the global powers with export controls and limiting access to companies such as Huawei. The race to develop new tech will allow the victor to set that techs global standards and this will be the future arena of competition.

## ***Will Britian Ever Leave the EU***

With a large majority after the December 12th election the UK Prime Minister Boris Johnson now has the numbers to follow through on Brexit. For long parliament stood in the way as the ruling party did not have a majority. The UK in all likelihood leave the EU at the end of January 2020. Parliament has agreed the withdrawal agreement. The European parliament is all but sure to ratify the deal too. After leaving the EU the UK remains the single market until the end of 2020 — called the implementation period. All that remains is for a new free trade agreement to be agreed, which will be extremely difficult as both the EU and UK have differing strategic goals. This means the implementation period and Britain being part of the single market will drag on into 2021.

## ***US Presidential Election***

With President Trump's impeachment hearing to take place in November 2020. This will make the Presidential election in November 2020 difficult to call. It is unlikely Trump will be impeached as he still maintains support with the US public and the Senate which will act as the jury in the impeachment hearings will unlikely vote their republican president out of office. This potentially will effect senators who will attempt to return to office in November 2020. It remains to be seen who wins the democratic nominations but it's likely Trump will present the Democrats as Socialists and use this to garner support. With the political polarisation in US politics, another term for Trump will have major implications for America's global position.

## ***India's Crisis-Ridden Economy***

With India citizenship crisis gaining all the news, India has another major problem taking place that is getting little attention. India economy facing serious problems, chief amongst them is the slump in growth. This has forced the IMF to get its assessment of the India economy. India electricity growth, manufacturing growth and service sector have all seen growth reducing and will be entering negative territory in 2020. Many of India's problems stem from the demonetisation in 2016 of high value notes. This hastily prepared policy broke supply chains and forced many small businesses to shut shop. The botched implementation of the Goods and Services Tax (GST) further caused misery to small businesses. Their key problems is these shocks have resulted in the absence of private investments and lack of critical and long-pending reforms in land and labour. The fact that some of the most hyped initiatives of the Modi-government—ease of doing business and Make in India initiative—have not shown the desired effect on the ground is evident from the poor manufacturing sector performance. In 2020 the BJP-Modi regime will come face-to-face with its crisis-ridden economy.

## ***US-China Trade War to Continue into 2020***

China and the US were seemingly inches from a deal for nearly all of 2019, but they repeatedly struggled to push negotiations across the finish line, with the US escalating tariff pressure on China multiple times instead. This really shows the limitations of US tariffs as a tool to force China for major concessions. Although a deal was struck in the end of 2019, it doesn't deal with the major points of contention between China and the U.S., and heavy tariffs remain in place as a result. The trade war is far from over. In 2020 Trump will need to show tangible goals have been achieved in election year and at home China will need to look strong as its economy growth rate shrinks.

## ***Unrest in Russia***

Living standards are declining in Russia and in 2019 it led to social unrest in Russia. Nearly 13% of the Russian population lives below the poverty line, according to Russia's statistics agency. Real incomes declined by 1.3% in the first half of 2019 and while figures from the third quarter of 2019 show positive growth, they were calculated using a new, questionable methodology. Living standards in Russia are measured using factors like economic well-being, environmental issues and political freedom. A deterioration in all three of these areas has put a strain on the population and fed into increased protests and unrest. There were at least 1,443 protests in 2019, significantly more than in previous years. Demonstrations over economic issues like salaries remained localized, since unions in Russia are weak and workers are concerned about losing their jobs, making mass labor protests relatively uncommon. The Kremlin uses force to suppress protests, and nearly 1,400 people were detained at a rally on July 27, 2019 setting a record for most detentions in one protest event over the past few years. If the economy doesn't improve and standards do not rise for the masses, Russia has a history of social unrest leading to regime collapse. Russia has not reached this stage yet, but despite all of Putin's global actions, he has bigger problems at home.

## ***Argentina Debt Default?***

Argentina will likely default on its debts in 2020. Argentina has been plagued by economic problems for years, but the commodities boom of the past decades helped the country repay the money it owed the IMF. It cleared its entire debt to the multilateral organisation in 2007. But when Cristina Fernández de Kirchner succeeded her husband President Néstor Kirchner in 2007 she turned to raising public spending, nationalising companies and heavily subsidising items of daily life ranging from utilities to football transmissions on television. To manage inflation the government controlled the exchange rate, which gave rise to a black market for dollars and heavily distorted prices. The country has defaulted on its external debt nine times since independence in 1816. Argentina has also entered 21 IMF programs since joining the international organisation in 1956. The regime in Argentina cannot sustain increases in domestic spending to keep the masses happy and maintain a budget surplus to repay its debts. Argentina's debt is currently \$258 billion, \$100 billion has been added since 2015.

## ***Global Recession v Global Slowdown***

The global economy has not fully recovered since the economic crisis in 2008 and whilst many governments used stimulus and the printing of money to get through the crisis the economic engine of the global economy continues to slow with 2020 likely to see a recession or a further slowdown which will affect the nations of the world in different ways. Nations most vulnerable to the slowdown will be exporting nations. Major economies that are dependent on exports such as Germany and China are the most vulnerable as they rely on others to buy their exports. The pressure on production will reduce the price of raw commodities, increasing internal instability in countries dependent on oil and other exports. Protests are already taking place in places such as Latin America. A global recession or economic slowdown will increase social instability, which was triggered by the 2008 crisis and will accelerate if the global economy goes into recession.

## ***Changing Face of Russian Energy Exports***

Russia has for long been working on changing its dependency on European energy markets and transit through Ukraine. In 2020 new pipelines are expected to come online which will add extra capacity to Russian energy exports and circumvent Ukraine. The existing Nord stream pipeline that carries natural gas from Russia to Germany will in 2020 have its capacity doubled and come online. The Turkstream pipeline is also scheduled to come online in 2020 which will supply Turkey and Europe. The US has already responded by sanctioning any company that undertakes the work, but this is too late, as the major work to construct the pipeline is complete.

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