

Ian Bremmer – We Face a Profound Geopolitical Recession

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by Robert Huebscher

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The world will enter a geo-political “recession,” according to Ian Bremmer, resulting in a large list of failed states. The U.S. will be relatively insulated from that crisis, but faces its own challenges driven by globalization and wealth inequality.

Bremmer is the president and founder of Eurasia Group, a leading global political risk research and consulting firm. He delivered a keynote address yesterday at the Schwab IMPACT conference in San Diego. It is the industry’s largest conference, with approximately 2,000 advisor attendees.



“We are used to boom-and-bust cycles,” he said, “like recessions every seven to eight years. But we don’t talk about geopolitical recessions, because the cycles are much longer.” Bremmer said the last time the world fell apart was after World War II. When it did, we rebuilt the world with U.S.-based values and standards – indeed, he said, globalization became Americanization.

A profound geopolitical recession

Now we are entering a period of profound geo-political recession, according to Bremmer.

The U.S. will not be badly affected, nor will be Japan or China. To understand why, consider the U.S. approach to the risk of terrorism, which is part of what is driving the geopolitical recession. Terrorism is a problem in the U.S., Bremmer said, but nowhere close to the concern it is in Europe, which is nowhere close to the level of concern in the Middle East. Angela Merkel, who Bremmer said is the strongest leader in Europe, took the lead in the refugee crisis. That was “massively courageous,” he said, but can’t be called leadership, since nobody followed her. Merkel offered to pay Turkey to keep refugees, he said, after German citizens pushed back when she tried to increase immigration.

The Middle East could count on oil money and stable populations, according to Bremmer. Now, OPEC has been “fundamentally destroyed,” he said, and the U.S. is no longer willing to provide military support to those countries. As a result, popular unrest will turn Syria, Libya, Yemen, Iraq and Afghanistan into failed states, among others.

“The biggest refugee crisis and the worst terrorist organization in history are not a problem for the U.S., China and Japan,” he said.

The challenge, according to Bremmer, is that there is no pressure on U.S., China or Japan to do anything about the refugee and terrorism crises. As a result, there is no support for the TPP and an “America first” attitude has gained popularity.

Bremmer said the recent criticisms of the U.S. by Philippine President Duterte were similar to events in the U.K. a year ago. The U.S. pressured the U.K. to not join the China-led infrastructure bank, because it would compete with the U.S.-led World Bank. But the U.K. joined anyway to show the Chinese that they were independent of the U.S., he said, and to encourage China to invest in U.K. nuclear facilities.

The Philippines looked at South China Sea and saw that America was turning away from the region, according to Bremmer, and said “let’s get on board with the Chinese.”

The U.S. is stable and not in decline, according to Bremmer. China will be the largest economy in 10 years but we will have by far the best military and will be the leading producer of food and energy. “This is not a bad story for the U.S.,” he said.

“But our footprint globally is decreasing,” he said. “Our allies are looking for alternatives, and the one that is at the forefront is China.”

Bremmer predicted that regions will align and cohere based on what regional powers want. Russia will drive integration based on its security and energy needs. China will drive integration in Asia, he said.

“If you are investing in China or, say, South Korea you will see a fragmentation of globalization,” Bremmer said. Companies that do business with China will tilt away from the dollar to the renminbi. The IT sector, which was the most globalized, will become the most fragmented, he said. For example, Lockheed Martin won’t be able to sell to markets that are unfriendly to the U.S., according to Bremmer. Bremmer said that this is already happening now to Facebook, Google and Amazon.

“Big multi-national companies will have to think strategically about geopolitics,” Bremmer said.

A few Middle Eastern countries will survive, he predicted, but most will fall apart. Europe “got too big,” he said, and will get smaller; functional integration (harmonized regulations and freedom of movement) will happen only among the core European countries (Germany, France, Spain, Italy and a few other), but will not extend to the U.K. or eastern Europe. Latin America will “move back to the U.S.,” he said, and toward free markets, which will make them a better place to invest.

A small but important issue

The geopolitical recession will be accompanied by a small but important issue, according to Bremmer.

“We don’t think our leaders are very legitimate,” he said.

That is true not just in the U.S., but in Europe. It is true not just for political leaders, but for CEOs, bankers, the media, and academics.

Interestingly, he said it is not true in Japan, where the population is shrinking and homogeneous. They love the establishment and are content with a one-party democracy, Bremmer said.

Driving this distrust has been globalization, which enriched the top 1% while the global middle class was “hollowed out,” Bremmer said. “Jobs and wages aren’t very good and no improvements are on the horizon,” he said.

The votes for Brexit and Donald Trump were not with an expectation of improvement, Bremmer said; they were similar to “Palestinians with rocks.” Palestinians are angry with their own government and the Israeli government, and see rock throwing as the chance to voice discontent, knowing it will not lead to an improvement in their condition. On a parallel note, undereducated whites in the U.S. feel like they have been forgotten, Bremmer said, and voting for Trump is a way to voice their dissatisfaction with their plight.

“It’s not going to stop in the developed world,” Bremmer said.

Technology will displace labor in the developed world, most prominently in the U.S. The nexus of protectionism is in the U.S. and Europe, according to Bremmer, where we are “apathetic.” For example, both U.S. presidential candidates are no longer supporting the TPP. But in the emerging markets and the Middle East “they care,” he said, because those governments will face problems if protectionism grows.

“When the social contract stops working things blow up,” Bremmer said. “Over the next five years advances in technology will trigger massive job losses.”

Countries will be faced with three options: They can fix the social contract, as have some Scandinavian countries, and ensure that greater benefits go individuals. Bremmer said it is unlikely we will do this nationally, but could happen regionally. That is the good outcome.

The bad outcome, he said, is that governments don’t deal with the problem, and revolts and a collapse ensue. That, he said, is the Yemen, Syria and North Korea model. “These sorts of things will happen in countries that don’t get it right,” he said.

The third option is to build walls, not change the social net and create greater inequality. This is already happening insidiously, Bremmer said, with initiatives such as for-profit jails.

All three paths will be followed, he said. Wealthier countries will choose options one or three. Poorer countries will go with

options two or three.

The key, he said, is which countries have the political capacity to act.

“This problem is big enough and urgent enough to solve,” he said, “unlike climate change. The next president will have to deal with this issue, as will Merkel. It will be her most urgent issue.”

The good news, he said, is that the world leaders governed “very fast” in 2007 to address the financial crisis, and this will be the kind of challenge that political leaders are well suited to address – at least for those countries that are capable of dealing with it.

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