

# CEBC ALERTA

Atualização dos principais indicadores comerciais e econômicos do relacionamento Brasil-China.



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## EURASIA GROUP: TOP RISKS 2018<sup>1</sup>

### GEOPOLITICAL DEPRESSION

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Last year, we wrote that the world was entering a period of geopolitical recession. After nearly a decade of a slowly destabilizing G-Zero framework, the election of Donald Trump as US president has accelerated the descent into a Hobbesian state of international politics. The world is now closer to geopolitical depression than to a reversion to past stability.

“America First” and the policies that flow from it have eroded the US-led order and its guardrails, while no other country or set of countries stands ready or interested in rebuilding it ... significantly increasing global risk. We now see more clearly a world without leadership.

The challenges posed by Trump’s approach to international affairs are the product of his unilateralist agenda and retrenchment, creating confusion for allies and rivals alike. What does the US stand for? What does the Trump administration hope to achieve? Is Trump a revolutionary or a pragmatist? Is the belligerent tone of some of his speeches and most of his tweets just an expression of his negotiating style or might he really take actions that push the US and others to the brink of war? Is “Make America Great Again” policy or political performance art?

The decline of US influence in the world will accelerate in 2018. The mix of soft power and economic and political liberalism faces a crisis of credibility. With little sense of strategic direction from the Trump White House, US global power, used too aggressively by George W. Bush, then too timidly by Barack Obama, is sputtering to a stall. Concerns about the prospects of a geopolitical depression form the backdrop for our top ten risks this year.

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<sup>1</sup> O artigo original foi publicado pelo EURASIA GROUP. Clique [aqui](#) para acessar o material na íntegra

## CHINA LOVES A VACUUM

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The 19th Party Congress marked a turning point in China's contemporary history, and the speech President Xi Jinping gave there will eventually be recognized as the most geopolitically noteworthy event since Mikhail Gorbachev formally dissolved the Soviet Union. Until last year, China had avoided talk of global leadership. Its diplomatic rhetoric was seldom ideological, let alone evangelical, but in 2017, Beijing publicly shifted its official strategy. China is no longer biding its time. Xi has now consolidated enough domestic power to redefine China's external environment and set new rules within it. He benefits from lucky timing: Trump has renounced the US commitment to Washington-led multilateralism and generated much uncertainty about the future US role in Asia, creating a power vacuum that China can now begin to fill.

For decades, many in the West have assumed that the emergence of a Chinese middle class would force China's leaders to liberalize the country's politics in order to survive. Instead, China's political model, despite its domestic challenges, is now perceived as stronger than it has ever been—and at a moment when the US political model is weakened. Today, in terms of the legitimacy of government in the eyes of its citizens, the US may be in at least as great a need of structural political reform as China. It's a shocking statement; all the more for its obviousness once you think about it. It's also one we've not once heard uttered in Washington, from either side of the aisle. Combine that with the strongest Chinese president since Mao Zedong and one of the weakest US presidents in modern history, and you end up with a moment of global reordering.

This means China is setting international standards with less resistance than ever before. It's true in three different areas (and is notably not true in a fourth):

**Trade and investment.** No country today has developed as effective a global trade and investment strategy as Beijing. China is writing checks and creating a global architecture while others are thinking locally or bilaterally. This model generates both interest and imitators, with governments across Asia, Africa, the Middle East, and even Latin America tacking more toward Beijing's policy preferences because the direct transactional consequences have become much more impactful.

**Technology.** China and the US are leading the charge on investment in new technology—in artificial intelligence (AI), in particular. For the US, leadership comes from the private sector. In China, it comes from the state, which aligns with the country's most powerful companies and institutions, and works to ensure the population is more in tune with what the state wants. That's a powerful stabilizing force for the

authoritarian and state capitalist Chinese government. Other governments will find the model compelling, especially those most worried about potential social unrest within their borders. And China's economic clout will align tech sectors within smaller nations with Chinese standards and firms.

**Values.** The only political value that China exports is the principle of non-interference in other countries' affairs. That's attractive for governments that are used to Western demands for political and economic reform in exchange for financial help. With the advent of Trump's "America First" foreign policy and the many distractions for Europe's leaders, there is no counter to China's non-values-driven approach to commerce and diplomacy.

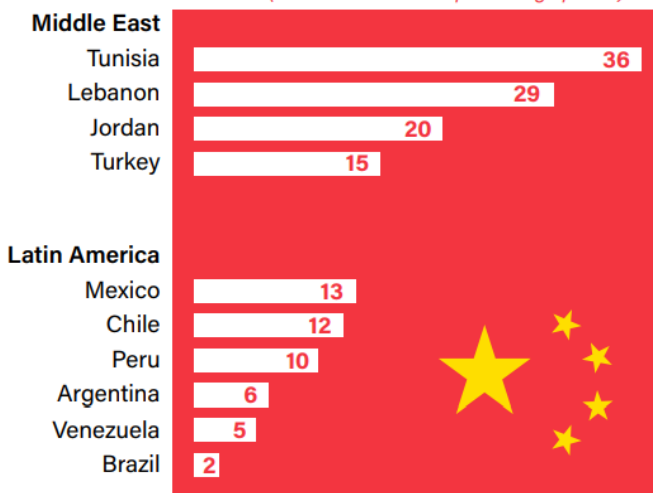
But not: **Security.** The Chinese model doesn't become more attractive on the national security front, as China remains at best a regional power (while the US vastly outspends it), and has not been a key player in the war against terrorism.

The dangers are three-fold. First, the global business environment will have to adapt to a whole new set of rules, standards, and practices pushed by China and diverging regulatory environments that will raise the cost of doing business. This won't be limited to the Chinese domestic market (itself increasingly critical to the global economy); it will likewise extend to an expanding group of countries around the world where Chinese economic and, relatedly, political influence are becoming dominant.

### Who said China lacked soft power?

*China is now substantially more popular than the US in key Middle Eastern and Latin American countries*

*These countries view China more favorably than they do the US (difference shown in percentage points)*



Source: Pew Research Center

Second, there will be pushback against China's further expansion that polarizes Asia by pitting China on the one hand against the US and its regional allies on the other. Asia's largest and most developed countries— Japan, India, Australia, and to a lesser extent South Korea— will see Xi's agenda as a threat to their democratic-capitalist model. This dynamic could lead to a lot more friction in the South China Sea, over North Korea, and in US-Chinese trade relations.

Lastly, Xi's growing assertiveness risks negative effects at home and creates a long-term threat

to the Chinese model. He is taking a risk by tightening the party's control of the country's private sector, by inserting party controls at the top of private Chinese companies as well as Chinese subsidiaries of foreign

multinationals. The risks to corporate decision-making and asset valuations are clear, and they could affect the long-term economic trajectory of both China and its imitators.

Still, since 2008, we've seen a gradual erosion in global perceptions of the attractiveness of Western liberal democracies. There is now a viable alternative. For most of the West, China is not an appealing substitute. But for most everybody else, it is a plausible alternative. And with Xi ready and willing to offer that alternative and extend China's influence, that's the world's biggest risk this year.

## ACCIDENTS

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**There's been no major geopolitical crisis since 9/11, and none created by governments since the Cuban Missile Crisis. But it's impossible to ignore the risk of such a crisis today, because there are too many places where a misstep or misjudgment could provoke serious international conflict. This comes against a less resilient international backdrop.**

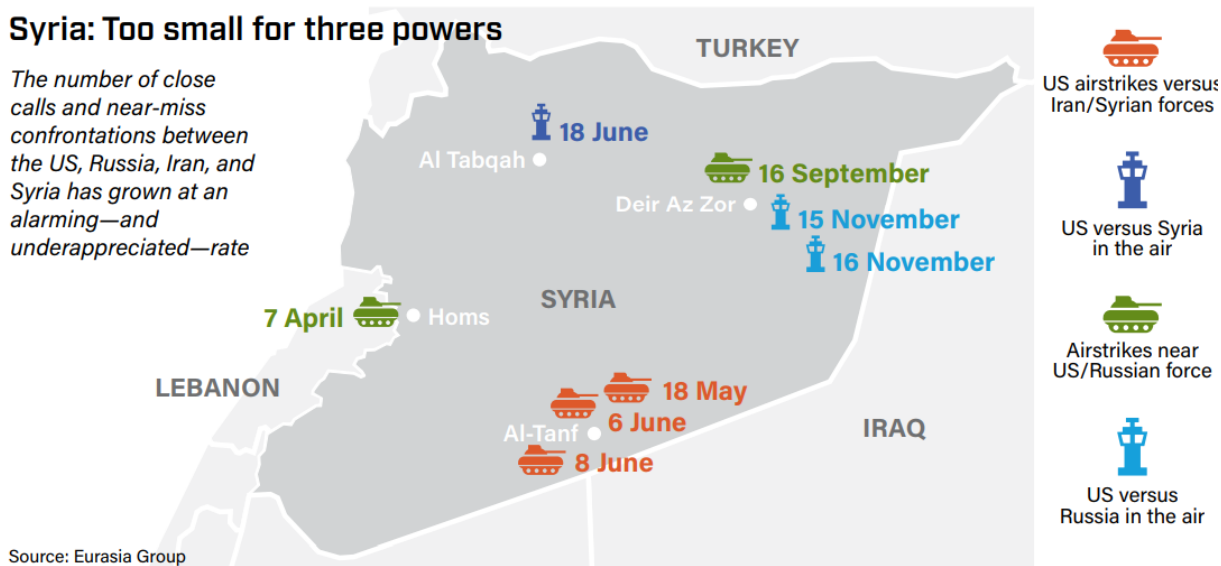
We aren't on the brink of World War III. But absent a global security underwriter, and with a proliferation of subnational and non-state actors capable of destabilizing action, the world is a more dangerous place. The likelihood of geopolitical accidents has risen significantly, a trend that will continue. At some point, we're likely to have a mistake that leads to a confrontation. A few worth thinking about for 2018:

**Cyberattacks.** The risk of a major cyberattack has risen at a time when international mistrust and the erosion of common norms, standards, and architecture has made it more difficult to coordinate responses to attacks when they occur. That makes the risk of overreaction high, even when reaction is warranted. The threat comes both from states (Russia, China, North Korea) and non-state actors (such as Anonymous); the capacity to wreak havoc is rapidly growing, especially given security vulnerabilities and high-level leaks from within the US National Security Agency. The prospect today of an economy-shaking cyberattack is real— be it via the destruction of a critical piece of infrastructure or through forced transparency that cripples the credibility of a leading corporation, bank, or marketplace; or even a takedown of the internet itself (several states have reportedly probed the resilience of the internet's backbone infrastructure). If an actor goes after these targets, we're in uncharted territory. Of all the unexpected geopolitical "accidents" listed here, cyber deserves to be at the top of the list.

**North Korea.** The world's most obvious risk of geopolitical accident. An unsatisfactory (and eroding) status quo remains the most likely outcome in 2018. Everyone knows that the US has only unpalatable military options. The North Koreans aren't suicidal; further North Korean missile tests are likely, but a direct strike on an adversary is nearly inconceivable. Yet, rocket tests over Japanese territory are intrinsically dangerous and

could provoke an escalatory response. So too the expanded military exercises and overflight by the North Koreans, Americans, and allies within easy shooting range of one another. Elevated tensions combined with less trust/coordination among all actors means that mistakes, when they occur, are more likely to ignite a conflagration. The possibility of war, which would risk severe damage to a key US ally and impact global supply chains, remains unlikely. But it's much more thinkable today than it has ever been.

**Syria.** The war in Syria will continue to wind down in 2018, but there will still be plenty of destructive hardware in the field carried by actors in close proximity who don't like or trust one another. Russian and US bombers regularly fly into each other's demarcation zones, and strikes in the wrong place could kill US or Russian troops. US soldiers are embedded with Kurdish forces around Raqqa and other areas east of the Euphrates, and they could become a target for Russia and Iran. It's the Washington-Tehran relationship that's most dangerous in Syria. Trump wants Iran out of the country.



**Russia.** Trump also wants a better relationship with President Vladimir Putin. But constrained by the most far-reaching presidential investigation since Watergate, a Republican-led Congress, an antagonistic media, and many within his own administration, he can't have one. When Special Counsel Robert Mueller details the conclusions of his investigation, they will focus on Trump campaign (and possibly Trump's personal) connections with the Kremlin's inner circle. Trump opponents will demand a hardline policy response, one Congress will likely support, but which Trump won't approve. Plenty of Kremlin dirty laundry will be aired. Putin might be tempted to respond—perhaps through a data dump attack that includes prominent

Republicans among its targets. Putin and Trump aside, US-Russia relations are openly hostile. And once the Mueller investigation concludes, they'll have reason to deteriorate further.

**Terrorism.** Conventional terrorist attacks continue to be far more likely, and dangerous, in the Middle East, North Africa, and South/Southeast Asia than in the developed world. But the end of the caliphate in Iraq and Syria has pushed many foreign fighters back to their homelands, creating increased risk in Europe, and the online sophistication of the Islamic State has facilitated more copycat attacks. A catastrophic attack in the US remains unlikely. But if one were to occur, the result would be greater division inside the US and overreaction by a deeply embattled Trump looking for a distraction from his political struggles and itching for a fight. The impact would be economically damaging immigration and security policies, and a consequent hit to the strength of US civil society. Even in Europe, more such attacks would continue to facilitate greater populism and more moves by establishment parties to embrace increasingly extreme policies.

## **GLOBAL TECH COLD WAR**

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**The pace of exciting technological breakthroughs is quickening. In recent years, the communications revolution empowered individuals by giving them unprecedented access to information and by boosting cross-border collaboration. Today, the big topic is data and, increasingly, the AI revolution, which empowers hierarchical organizations to control and sift that information. But this latest wave of innovation is taking place at a time of broader tensions within the internet and technology spaces that will play an important role for global markets in 2018.**

Long term, the convergence of AI, big data, and ultra-fast networks is the game changer. It's an unprecedented social experiment: getting smartphones into the hands of every young person with economic potential, allowing them to interact with the world, and seeing what happens as they grow up. This will become a much bigger deal over time. As our cars, homes, factories, and public infrastructure begin to generate mountains of data, and as connectivity morphs into augmented reality, a new generation of humans will be "on the grid" around the clock, with important implications for society and geopolitics. But until we get there, it's the world's biggest fight over economic power.

Here are the key fault lines in 2018:

**A race for breakthrough technology** is underway between the US and China. Both countries' tech giants are speeding to master AI and supercomputing among other highly investment-intensive, next-generation technologies. The winner could well dominate the coming decades, both economically and geopolitically. Dividing lines are growing sharper: The US still has the best talent, but Beijing is training many more

technologists. China will continue to plow money into its homegrown research and hardware sectors, while the US struggles with less control over its private-sector top performers than Beijing. The race is a tight one.

**A struggle for market dominance** will continue to rage in third-party countries and regions that will have to decide whose products and standards to embrace. Think Africa, India, Brazil, and even Europe. China and the US are engaged in a global competition to be the lead technology supplier for their various international partners. This fight plays out in three areas: civilian infrastructure (from fiber-optic cabling to cloud storage), in consumer goods (putting next generation smartphones in every hand), and in government procurement and security equipment. The latter is of utmost importance, as—just like the traditional arms deals of yesteryear—a linkup between two governments on cybersecurity creates long-lasting technical dependencies that translate into strong political ties. Traditionally, China has benefited from distrust felt toward the US following the Edward Snowden revelations, as well as from cheaper prices, while quality was its weak spot. But today these paradigms are being called into question as China’s products become ever-better just as Europeans and others begin to question the security challenges of doing tech business with Beijing.

**Fragmentation of the tech commons** is the last major effect of this global tech cold war. China’s 700 million-plus internet users remain behind the Great Firewall. China, Russia, and other countries that want a tight grip on information flows are implementing tough cybersecurity laws and considering erecting barriers to the flow of data across borders as they move to reduce their dependence on the Western hardware and software that underpins their own cyberspace. The US is also taking a harder line on foreign investment in US tech firms, partly in response to China’s rise, partly in response to fears over cybersecurity threats, while a data privacy-obsessed Europe keeps a wary eye on US electronic surveillance.

Fragmentation creates market risks as state-promoted and private-sector corporations begin to function as quasi-monopolies in their respective spheres of influence. Markets become less competitive and, therefore, less efficient. Perhaps most importantly—and immediately—security erodes too. It’s harder to guard against global viruses with domestic antivirus companies or to innovate in the absence of international partnerships. None of this will stop the march toward a new economic and political order reshaped by technology, but it will make it much messier.