

Global Political Drivers

GROUP DYNAMIC IN BA

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- **G20 Summits are more than a venue: they hold up a mirror to the global drivers and can sometimes influence their direction.**
- **As Cold War 2.0 gets underway, these Summits are becoming a rare, or even the sole, opportunity for in-depth direct discussions between the principals.**
- **Long before Trump, officials worried about the unpredictable outcomes of such personal encounters.**
- **These factors apply to next week's Trump-Xi 'trade war' talks in Buenos Aires.**
- **The face-to-face meeting does not give grounds for optimism, but it could well plant the seeds of Trump's future "victory".**
- **That means a shift from escalation to managed rivalry.**

G20 Summit chronology

From Washington DC to Buenos Aires

Summit	Highlight
November 2008: Washington	Cooperation on the 2008 crisis.
April 2009: London	\$1 trillion stimulus, FSB established
September 2009: Pittsburgh	Agreement on G20 superseding G8 as prime econ forum
June 2010: Toronto	Ongoing recovery and EA crisis agenda
November 2010: Seoul	EM currency war concerns from Fed QE.
November 2011: Cannes	EA crisis drama in real time
June 2012: Los Cabos	Merkel and Obama spar on Greece.
September 2013: St Petersburg	Syria crisis post-Ghouta chemical attack
November 2014: Brisbane	Geopolitical confrontation with Russia
November 2015: Antalya	Political and security crises: Syria, refugees and terrorism (ISIS)
September 2016: Hangzhou	Tax evasion, defending globalisation (Obama swansong)
July 2017: Hamburg	Trump-Putin debut
November 2018: Buenos Aires	All eyes on Trump-Xi

G20: The big post-1945 thing

Today's Thanksgiving holiday in the US seems a fitting moment for uplifting sentiment. In the international political arena, a traditional high ideal has always been global governance to provide desirable global public goods, such as peaceful dispute resolution and constructive cooperation for the common good.

The twentieth century saw internationalism burst into real-world politics. Recorded history shows the constant and violent competition for resources punctuated at intervals by yearnings for universal government and peace. Nostalgia for student days may be blunted for some by memories of courses with bone-dry assignments on the foundations of international public law in seventeenth-century Europe. That tradition in the history of ideas burst into real international politics exactly a century ago with Woodrow Wilson's Fourteen Points which led to the failed experiment of the League of Nations, before reaching a high point as WWII ended with the founding of the United Nations Organisation. That high tide of internationalism then flowed into economic and financial questions by way of Bretton Woods.

The G20 is the latest institution to be born from that tradition. Since the resulting institutions – above all, the IMF and World Bank – proved too rigid to accommodate the rise of China and other fast-growing emerging economies in the globalizing world of the 1990s, the G20 was invented at the end of that decade as a mechanism for informal dialogue on economic and financial questions. The selection criterion boiled down to economies that cannot be ignored (in the jargon, "systemically important") and the resulting total of 20 participants was reached by adding to the pre-existing G7, the five BRICS, two further major economies from each of Asia (South Korea and Indonesia), the Middle East (Turkey and Saudi Arabia) and Latin America (Mexico and Argentina), plus Australia and the European Union.

The GFC saw it take pre-eminence in the field of global economic governance. This group's legitimacy is assured insofar as it accounts in aggregate for over 80% of global output and trade. It took, however, the Global Financial Crisis to transform the G20 from a serviceable but unremarkable talking shop of finance ministers and central bankers into what has now emerged as the over-arching global economic governance forum. For in the white heat of the global crisis, the US agreed to meetings of the G20 at the level of head of state or government. After the initial GFC-driven flurry of five Summits in 24 months, these became annual events.

Main Trump-Xi event coming up

This year's G20 will see a closely-watched meeting between Donald Trump and Xi Jinping. The summit in Buenos Aires next week is attracting more financial market attention than its predecessors, as it will be the scene of a separate bilateral meeting between Donald Trump and Xi Jinping that will set – or, at least, indicate – the direction of the US-China 'trade war' that has emerged this year as the single most powerful political driver for the global economy. The forum (i.e. G20 Summit) may seem an insignificant detail compared to the show itself, just as an audience will flock to see a popular artist or act regardless of the venue.

Summits as mirrors, even drivers

G20 summits are a revealing mirror for political trends. This analogy may flipped round, however. Famous sporting or performance arts venues can have a mystique in their own right that not only creates a draw for champions and divas but also affects the style and quality of performance. In this sense, we see G20 Summits – particularly, but not only, the imminent instalment in Buenos Aires – as deserving attention in their own right. While the G20 does not

qualify as a standalone global political driver, these Summits almost always hold up a revealing mirror to the real underlying drivers and sometimes contribute to the dynamic of the driver itself.

This is true even though they rarely result in policy decisions. Examples in support of this thesis may be easily picked out from the chronology of the first decade of G20 Summits presented in the table below. Before looking at some of these examples, we should note the general point that only one G20 Summit has ever taken an operational decisions. This was the gathering in London in the spring of 2009, which established the Financial Stability Board and agreed to new funding of \$1 trillion to combat the global recession, channelled mainly through the IMF.

Since then, the G20 Summits have rarely been of interest for their official economic agenda. Communiqués record agreement in areas of bland consensus, while passing over in silence unbridgeable gaps of policy or even culture such as the entrenched external surpluses of the 'savings glut' countries. One topic – protectionism – that started out as a staple of the consensus ("avoiding a repeat of the protectionism that aggravated the Great Depression") has now, in the Trump era, fallen into the silent zone.

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The interest of the G20 summits is in the reactions they exhibit to the world's highest-profile problems. In the years since the GFC, the interest of G20 Summits – in line with their status as the prime set-piece of top league international politics – has revolved around the reaction to burning political and economic questions of the day. 'Reaction' in this context indicates future actions – i.e. the point about the G20 as a mirror on the world.

- The 2011-12 Summits in Cannes and Los Cabos provided a graphic and sobering demonstration of the German political block on defusing the Euro crisis. The Cannes event rivalled anything offered by that town's regular film festival attraction, as the drama of the ousting of the Italian and Greek leader Silvio Berlusconi and George Papandreou played out in real time. This tale is well told in Adam Tooze's very impressive contemporary economic history published last August, [*Crashed*](#).

- The St Petersburg Summit revealed Vladimir Putin's capabilities as a global player by paving the way for Barack Obama's U-turn on his chemical weapons "red line" in Syria. The following year in Brisbane, Putin himself was in the firing line against the background of the Ukraine crisis. He was again the centre of attention at last year's Summit, which provided the opportunity for his first ever meeting with Trump that had been politically impossible up to that point owing to the "Russiagate" furore in the US.

Learnings for leaders

The G20 has become the main or even only opportunity for rival global leaders to meet in person. Those G20 Summit clashes over the Eurozone crisis were fierce, with Obama and Chancellor Merkel on opposite sides of the barricades. But the encounters between Trump and the leaders of what the US now defines as global adversaries – Russia and China – reflect an important change in the role and significance of the G20. At its inception, the G20 Summits saw the main players of the globalized economy trying, despite all their differences, to keep the globalization show on the road. Now, at the outset of Cold War 2.0, the G20 is the exceptional or even sole provider of opportunities for rival global leaders to discuss their disagreements in person.





G20 Summits offer not only the occasion but also the incremental time and breathing space associated with an offsite. In Buenos Aires next week, for example, the main event of the Trump-Xi trade war talks looks set to be complemented by a Trump-Putin meeting focused on nuclear arms control, against the background of Trump's stated intention to withdraw from the 1987 Intermediate Nuclear Forces (INF) Treaty.

And face-to-face meetings are important. The origins of that treaty demonstrate how powerful the impact of private face-to-face meetings can be (in that case, between Mikhail Gorbachev and Ronald Reagan). 'Impact' does not mean resolution. For example, at that tense Russia-focused Brisbane Summit, Putin had a long private discussion with Merkel in which he made her understand that in his Russian perspective the root cause of the geopolitical confrontation was the NATO (i.e. US) drive towards Russia's borders. While Merkel could not agree that NATO expansion threatened Russia, she grasped that this was the red line on which European security now hinges. That realisation has since been clearly reflected in German – and wider EU – policy.

Trump's meeting with Xi may cool the trade war – although it is unlikely to end it. A similar longer-term impact may well stem from next week's Trump-Xi meeting. A standard view is that Trump's typically random walk – and its even more random rhetorical expression – presents the main uncertainty going into Buenos Aires. The reality may be more subtle.

In contrast to Trump's solo stand-up acts (such as his remark at his post-election press conference that he felt "insulted" by China's competing with the US for global economic and technological leadership), he reacts differently in situations of direct dialogue with his peer counterpart. Our house view is that this meeting with Xi may cool, but will not end, the trade war. The 'G20' factor may add something important to that picture in the sense of leading Trump to internalize the scope of possible Chinese concessions on the basis of which he could, further down the road, declare victory.

GLOBAL POLITICAL DRIVERS – OUR THEMES

Theme	Why it matters	Recent views	Risk
The squeezed middle	Squeezed lower/middle income households in DM countries might be inclined to look for radical solutions – whether to the left or the right.	Corbyn's Labour <u>is interested</u> not so much in redistribution, but in ideologically-driven supply-side changes. A sympathetic ECB will be <u>the most important factor</u> in determining Italy's fate.	
Great Power conflict: East Asia	North Korea's nuclear drive threatens to spark conflict in a region that already possesses its share of large-country tensions.	Kim Jong-Un's "Gorbachev gambit" raises the possibility of <u>a geopolitical realignment</u> .	
Cold War 2.0	The new US National Security Strategy implies a global geopolitical backdrop of great power tension.	A more rambling trade war timeline <u>eases the downward pressure on the RMB</u> .	
Great Power conflict: Middle East	The Middle East is a flashpoint for conflicts – with potential for spillovers that could affect the oil price, European security or Israel – a key American ally.	The possibility of Chinese intervention means that oil markets <u>might be overpricing</u> US sanctions on Iran.	
<p>Special reports: Peak Brexit Panic Timelines, 27 September 2018 Grappling with Corruption, 31 August 2018 Brexit: Rough Passage to Safety, 5 July 2018 China Stability Risk: Post-Deng Chapter 2, 7 December 2017 Japan: The Lessons of Ms Koike's fizzle, 12 October 2017 Shale Revolution: Russia's missing trick, 22 June 2017</p> <p>Closed theme: Great power tension: West-Russia Russia-West: Cool Peace, 4 January 2018 Cyber wars: Add to the risk-off list, 20 July 2017</p> <p>Closed theme: European Voter Revolt Europe and America fear factor review, 24 November 2017 Labour participation unmasks political risks, 14 September 2017</p>			

GLOBAL POLITICAL DRIVERS: DEFINITION AND BENEFITS

Political and social developments are for the most part inseparable from economic drivers of risk and opportunity in the global economy and financial markets. But there are times when purely political factors play a decisive role. Global Political Drivers is a component of TS Lombard's macro research service that identifies and analyse such factors. As the title suggests, the selection criterion is the scale of the potential impact – that is, large enough to make the theme relevant for global asset allocators. The detailed insights on the subject matter of many themes should also offer value to portfolio managers and analysts focused on particular geographies and asset classes.

What are these drivers?

The drivers fall into two broad categories:

Geopolitical:

The risk of great power conflict in:

- Western Eurasia
- East Asia
- The Middle East

Domestic politics:

- Voter revolts in Europe
- Trump risk

Publication content and cycle

At any one time, we expect to have around six themes under active coverage. While we only focus on political drivers that we assess to be globally important, we occasionally challenge a consensus view on the high importance of some topic that, in our view, is less risky than widely believed.

GPD notes are published every other Thursday (alternating with Macro Picture). Each note leads on a particular driver, while noting more briefly any marginal changes in the risk profile of other topics on the service's current roster.

Core team

The service is led by Christopher Granville, a former UK diplomat who has two decades of experience providing political economy analysis for investors on Russia and the rest of the former Soviet Union. The other lead analyst is Jonathan Fenby, the Chairman of LSR's China Research service and the author of several books on Chinese history and contemporary China. The core team also includes Marcus Chenevix and Constantine Fraser, specializing respectively in the Arab world/wider Middle East and Europe. The team draws systematically on the insights of our senior economists and market strategists.

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