

The Great Geopolitical Re-Anchoring

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Ed D'Agostino: George, always good to see you. Your annual forecast at Geopolitical Futures just came out. I just finished it. Always enjoy reading it. And there's a twist this year, which I found interesting. You said that the world is becoming re-anchored. What do you mean by that?

George Friedman: The world till the end of Cold War was anchored. There were three options for every nation: be allied to the United States, be allied with the Soviets, or be neutral. And really the world was at a sense anchored. There was the hostility between the United States and the Soviet Union as the anchoring reality. The United States relationship with Europe was anchored. And so, when we take a look at that, it was orderly, even if murderous at the same time.

The Cold War ended in Ukraine, not with the fall of the Soviet Union. In Ukraine, the Russians demonstrated that they were incapable of taking Ukraine, were beaten back from Kyiv, and therefore in no way a threat to Europe. This in turn, along with the emergence of China as a much more powerful nation than Russia in many ways, Russia being no longer a world power but a regional power and not much of an economic power, had a new transformation that we've been going through. And that transformation was the relationship with the United States and China being much more important than United States and Russia. And we are in the process of re-anchoring with that relationship this year being, in some ways, defined.

Ed: The Cold War era was sort of defined by mutual deterrence and not a lot of direct participation until we had détente. The relationship with China is very, very different.

George: Well, the Cold War—we did not have a direct war with Russia. We fought many proxy wars with Russia, and among those wars were the Korean War, the Vietnam War, the Iraq War, the Arab-Israeli wars that were done. It was a war-like time. A direct confrontation between us and Russian troops didn't take place. So that was anchored in that sense, but very violent that period.

Ed: My interpretation of your forecast is that Russia's star is falling and China's is simultaneously rising. And so, we have this different replacement for Russia, and our relationship with China is vastly different. At least it seems to me in terms of trade. Maybe that's changing. I don't know. I'd love to get your thoughts on that.

George: That's fundamentally the point. With Russia, we never had an economic competition, if you will, tension, or even relationship. Russia was never an economic power. It was purely military. With China, we have a dual relationship: intertwined economies on both sides, as well as a hostile, potentially hostile military relationship. So, in a certain way, the Russian-American confrontation was less complex. On the other hand, the US-Chinese relationship is more intimate.

Ed: Would you describe us—us being China and the US—would you describe us as mutually reliant? And does that sort of put conflict off to the sides?

George: Being very entangled can lead to peace. It can also lead to war if either side becomes afraid of the other in one dimension economically, for example. Now we are deeply intertwined economically because to a great extent the Chinese economic evolution depended on the United States. It replaced Japan as a major exporter of lower price goods to the United States, and there was substantial American investment in China.

Now we are at this point—one quarter of the world's economy. They depend very much not only in terms of quantity, but in terms of types of things they develop. They develop many products for the American market, both consumer and technological.

For the Chinese, the tariffs that were created a barrier. That barrier has caused substantial unemployment in China. It has also caused financial problems, particularly in the real estate area, which is kind of a surrogate financial market in China. The Chinese growth rate has gone now below 5%. It's somewhere around 3%. And where it was at the highest point, it was 15% growth rate annually. Then it went down to a 5% growth rate, it held. This has pushed it down. The Chinese have serious problems, very serious.

We also have problems, as we call the affordability crisis. Many of the reasons that the American price was kept down was the infusion of lower cost Chinese goods. The US economy was very dependent on Chinese imports. For example, particularly pharmaceuticals, they're very dependent on China's exports. So, tariffs have created shortages and difficulties at the time. The affordability issue is in part driven by this. It is not as extreme a problem for the United States. It is a problem, but not extreme. For the Chinese, the decline in investment, for example, reached a very low point this year—the amount of investment being done in China, both by the Chinese and by foreign governments. China is in a significant economic problem. The United States is in a serious economic problem, and that's the foundation of this discussion.

Along with one other thing: the United States cannot afford to be dependent on a country economically with which it has a potential military confrontation. The Arab oil embargo was the model. The United States was aligned with Israel. The Arabs cut oil and the damage to the United States in the 1970s was dramatic, if you recall. The idea that we're going to have a hostile military relationship, but an intimate economic relationship, is non-supportable. And these are the talks that I think Trump and Xi are having a great deal.

And there are a number of signs in the way they speak about each other. The Chinese ambassador to the United States has said how solid the relationship is between the United States and China at this point, and how it's going to evolve. The Chinese ambassador to the United States tended to say much nastier things about the United States. After the Xi summit with Trump, that began to change. I think that was the point where in principle, both sides said, "This can't go on," and now they're trying to work out what it means.

Ed: In the meantime, it looks to me like China has done a great job of reducing dependency on the United States. Their exports are at a record high, and yet US imports are at a multi-decade low. So, have they replaced the US in terms of customer base?

George: The American market is unique in the range of products that it could absorb. It's one-quarter of the world's economy. As I said, there's no other single nation that could even come close to the market it had, nor any single nation that could provide investment capital to the amount the United States did prior to the end of the Chinese boom.

So, when you take a look at the numbers that are coming out in terms of the total amount they're selling, we have to take a very close look at what they're selling and how that affects their economy. I'm not saying that I doubt Chinese numbers, but I sometimes wonder exactly how they do that in this world. But I'm sure they are absolutely immaculate in how they report.

Ed: You said that during the Cold War, Russia didn't really have much of an economic tie with the United States—

George: Or an economy.

Ed: Or an economy. Europe, however, a different situation, right? I mean, Europe was highly dependent on Russia for natural gas. What does this change mean for Europe? Because everywhere I go, people are saying to me that Europe is the big loser in this whole geopolitical landscape today.

George: It's hard to know. Remember, the European Union's GDP taken together is larger than China's. In other words, from an economic point of view, there is no reason why the Europeans should be staggering. The Europeans have a fundamental decision to make, and we're seeing all the things revolving around it.

What is Europe? Europe at this point is some 40 different countries, all with bad memories of each other, different languages, different cultures. Now when you say, "What will Europe do?" Well, you're saying, "What will France do? What will Bulgaria do?" and so on and so forth. There is no such country as Europe. The fundamental question for Europe is not what its relationship is with the rest of the world; it's what is its relationship to itself. And that's really the question that is—if the United States and China have reached this accommodation, which I think is imperative for both countries, we can't go on this way. If they do that, the next

fundamental question in the world is, what is the future of Europe? And that is dependent not on other countries, but the Europeans themselves.

Ed: Is NATO obsolete at this point? Formed in 1949, right after World War II, primarily meant to act as a deterrent to Russia and keep Russia from expanding into Europe, expanding west. It seems like everything has changed today. What does that mean for NATO?

George: The United States entered World War I when the U-boats started sinking ships in the Atlantic. It entered World War II when the Japanese attacked Pearl Harbor, sinking ships there. The United States is the only country in the world that cannot be invaded. The Canadians can be mad at us, but they're not going to invade, nor the Mexicans. So long as we control the oceans, we are secure.

The issue in NATO when we entered NATO from the American point of view is to keep the Russians away from the French and German ports—Hamburg and so on—to keep them out of the Atlantic, which goes somewhat to Greenland now as you think about it. So, for the United States, this was a fundamental matter of national security to keep the Russians away from there. It expressed it ideologically that it was democracy against communism, which it also was, but there was a fundamental reason we were there.

Given the obvious weakness of Russia's military after four years, not being able to take a country like Ukraine, we now understand that certainly if they can't do that, they're not going to be able to invade Europe. And the Europeans, particularly the Poles, are evolving economically. The relationship that we used to have with NATO is obsolete. There can be a different relationship based on a different geopolitical reality, but the old one is gone. And this is one of the reasons that Trump or anyone who is in power would be reducing its presence in the Eastern Hemisphere, magnifying it in Western Hemisphere.

There's a fundamental shift when I talk about anchoring. We have an unanchored world, and that's evolving and all these questions are up in the air.

Ed: I can't resist asking you... can you explain the why behind Greenland? What is it about Greenland that is so important?

George: You have to go back to the Cold War. The fear was that the Russians would send submarines into the Atlantic, sinking our transport vessels, keeping supplies from reaching Europe in the event of war, keeping our troops from reinforcing themselves. The only way they could do that is to get submarines into the Atlantic. The only route they had was the Barents Sea up north, down through what was called the GIUK gap.

The GIUK gap was Greenland, Iceland, UK. Between UK and Iceland, there's a relatively narrow path to go through. When you take a look at Greenland and Iceland, there's another path to go through. Therefore, controlling the GIUK gap was fundamental. If you'd notice that during the

attacks of Venezuela, it was noted that a Russian submarine was tracking one of our ships in the Atlantic. That was down through the GIUK gap—that's the only way they could reach it.

Greenland is of critical importance to the United States in that sense, but also more so because wars in the polar region are now more likely. The ability to pass through the polar region makes Greenland—little Greenland—a vital element. During the Cold War, Greenland was very important, along with Iceland. Most people didn't realize this, and it was critical. It still is. Therefore, the United States has a fundamental interest in Greenland.

On the other hand, no one in NATO has ever challenged that. Right now, we find there are minerals there, which adds to the desire of Trump to hold Greenland, take Greenland as part of it. That is to some limited extent understandable in the sense that, well, if this is so important to the United States, can we rely on Denmark in every way, shape, or form not to do something? It's hard to make the claim, but you can do it.

What stunned me was the desire to have tariffs with Europe over the question of Greenland—that any country in Europe that opposed the idea of Greenland was going to be hit by tariffs. That to me was the moment where it seemed to be profoundly irrational because given the problems we have with the Chinese economically over tariffs, developing those in Europe as well is not in our interest.

When we look at Greenland, yes there is a fundamental strategic importance in Greenland. Second, we have complete access to Greenland and the right to send 15,000 troops there on paper. They'll take more. The idea that we should own it completely is a stretch. You've really got to make an argument, but you could make one. But that you're going to put tariffs on any European country that opposes you in this—now we've gone into a very different realm that I can't explain.

Ed: That's why I asked if maybe NATO is not relevant anymore or if we're going to leave.

George: Well, NATO is not what it was before because there's no danger of Russia taking Europe if it couldn't take Ukraine. Therefore, there's a different foundation in this relationship. It's reasonable for the United States to expect Europe, which I said was the second-largest economy in the world, to defend itself, to be an ally instead of a client, if you will, of the United States on military matters.

And one of the reasons that you could rationalize wanting to hold Greenland is that the European militaries are both divided—they're not one military—and not at all up to the par of perhaps being able to defend Greenland from a Chinese polar attack or something like that. There is part of this that's rational, part of it that's dubious, part of it that is preposterous. The preposterous part is the tariffs.

Ed: Yeah, it's more of the maximalist negotiating strategy, but I can't—I don't see what the point of it is. It's elusive to me at least.

George: I published something apologizing to my readers. I finally found something I could not explain geopolitically: the tariffs. The tariffs were the line. You could somehow rationalize taking Greenland. It was a strain, but it could be seen as not totally irrational. Tariffs—now we crossed the line. I won't mention this apparent letter he wrote to the Norwegian president. I have never met Donald Trump. I don't know his condition. I respect him greatly. But that was very strange.

Ed: I won't even touch it, but I agree. So, in terms of hemispheres, there's a lot of talk about the "Donroe" Doctrine, and that the US is walking away from the east and going to focus on the Western Hemisphere. How much credence do you give to that argument, and do you really see countries like Brazil coming closer to the US and moving away from China?

George: Look at it this way. The Cold War was a bloody war. It was a battle for the remnants of the European empires to collapse in World War II. It's not that we wanted to control them, we didn't want the Russians to control Africa. And we fought wars in South Korea, Vietnam, Iraq, all over the place, Afghanistan—all of them had some element of US-Russian competition.

When we look at this period, we were very exposed militarily and an entire generation between 1945 and the 1980s, let's say, served in the military and it was quite something—a strain on the United States. So, when you consider that, the desire to disentangle from the Eastern Hemisphere, at least militarily, makes a great deal of sense.

I think that any president at this point would say that the amount of exposure we've had over the past 80 years to wars in Europe, which together caused many casualties and disrupted many American lives, has to be reduced. The Eastern Hemisphere is inherently violent in many ways—Middle East and so on—and we don't want to be the cops of the world as the left used to say. Now the left wing is saying, "You've got to be cops of the world," and the right wing is saying, "No, we'd rather pull back." American politics are humorous.

Ed: That's one way to look at it. George, I know it's early, but President Trump in his final term, any wild guesses, thoughts, ideas on what does the US political landscape look like post-President Trump?

George: Well, as I forecast, we're in the middle of the storm—first, a socioeconomic storm, particularly from the social point of view, between liberals and conservatives confronting each other terribly. Secondly, we're in the middle of an institutional crisis. This is the first time that these two crises—an 80-year crisis and a 50-year crisis—converged at the same time.

We are in the process of restructuring the federal government, which is 80 years old, and we reinvent things. We're in the process of restructuring our economy just out of necessity, rebuilding it in some ways. And unexpectedly, we're also in a geopolitical crisis with the failure of Russia in Ukraine suddenly forcing us to face a very different reality than we'd faced for the last 80 years, since 1945.

And so, we have three things going on: an economic problem—I won't say crisis; a social crisis—I will not say it's a problem, as it's a fundamental crisis that happens periodically; and also a geopolitical challenge to redefine ourselves. Any president I think would be pulled apart in various pieces during this presidency, and certainly this one is being pulled in different ways and various things under great tension.

So, this will end. We've had several of these going every 50 years. We have one of these, the last one being the one that Reagan solved with demand-based—you know, investment-based—tax roles at the same time. It's going to be a very unpleasant period, and we're in it, and it was predictable. Is it predictable to say what the other side looks like?

Well, from my point of view, the other side—each side had a fundamental economy, if you will. The previous 50 years, a hundred years, they were built on the automobile industry in a way. Then on television, the next one is built on the microchip. When you take a look at the fundamental technology that drives AI and all these other things, it's the microchip that was invented in 1956 at Texas Instruments.

Now, this is the underlying technology of all these things. It ties them together. When you look at that, you say, "Well, how long does this technology last? How much can it do? When does it become mature? How does the system become mature?" From my point of view, the most important problem in the next 50 years is demographic.

We have an aging population with an extending life expectancy. At the same time, the birth rate is plummeting. The elderly—I'll include myself—are net consumers, they're not net producers. The production rate in the next 10, 20 years, given the birth rate right now, is going to have to somehow accommodate even lengthening life expectancies.

Now that has to be solved. Now, I think the technology that will solve that—AI will help out. AI has its limits. It's material science. What material science is doing in medicine at this point is dramatic. Given the demographic crisis that life expectancy be lengthened, but maintain productive, the key is whether material science can evolve—and they've evolved dramatically in recent years—to be able to sustain the economies, not just of the United States. This is a global event that's taking place.

Ed: China's in the same boat.

George: All countries are in the same boat. Birth rates are declining for a number of reasons—some cultural, some economic and so on. Life expectancy is expanding. Health is not quite extending quite as much. Therefore, you reach the ages over 80—you have high level consumers, zero production in the productive sector.

Now, AI may ease that in some sense. I think we overestimate what it can do, but it can do much. It's a great tool. When I look at the future, what comes out of this crisis is going to be really dealing with this demographic crisis, which is not yet a crisis, it's just an emerging reality.

And when you look at the new technologies that might occur, AI would certainly be a tool in it and is a fundamental tool in material science. But the ability to create new medicines, new materials, all sorts of things—you have to be looking at that. I see where the previous cycle was all about the microchip, the one before that, the internal combustion engine and so on. That seems to be what's going to happen.

Ed: We may be entering the age of quantum computing. That could be the accelerant.

George: Well, I don't know what quantum computing is. Quantum mechanics says that two items, two particles at vast distance of each other, can be in contact with each other and move in the same ways. As Einstein called it, "spooky action at a distance." There are many theories about why this occurs and many visions that we're going to exploit it.

It is particularly important for the military. We will fight wars now from space. The vision, the images gathered in space, guided the Ukrainian army to be able to block the Russian army. They saw from space where the Russians were, took a much smaller force than they were, and are always blocking in some ways. Wars are now fought from space. Now that depends on the ability to communicate. If you can't download the material to the earth, where in the world are you?

Here's where quantum communication becomes very important because it seems to be an acute mode of communication that can't be disrupted. At the same time, no one has the slightest idea how this works. So, when you talk about warfare, what a quantum computer is beyond me, but it's a great name.

Ed: Your annual forecast at Geopolitical Futures touches on so much. I'm going to leave lots of questions on the cutting room floor. But I would highly recommend viewers to check out Geopolitical Futures and the annual forecast because it goes into every region of import in the world. I'll ask one last question though.

Circling back to Russia, George, you wrote in your forecast that essentially Russia has lost the war in Ukraine. The deaths might not be over, sadly. The war is essentially over; the outcome has been determined. And you write about how the US and China are easing tensions and perhaps going to figure out an accommodation. What does that mean for this massive landmass that we currently call Russia?

George: It's very bad news. The Chinese have never had good relations with Russia. Even under communism, they fought battles along their borders. Mao hated Khrushchev and it was not good. The Chinese are now claiming that the eastern part of Siberia, the Kamchatka Peninsula, Vladivostok are actually Chinese, stolen by the Russians. They print maps in China showing that part of Russia to be part of China.

Ed: Now, already?

George: Yes, and this is a serious thing. I don't think they would, but as United States and China come together and the Chinese' underlying hostility—remember they provided no aid in the Ukraine War beyond selling cash on the barrelhead weapons to the Russians. It was North Koreans that helped them out. The Chinese didn't touch it.

The Russians are now in a huge problem. It's not just the western border—Ukraine, Central Asia, Kazakhstan. These areas that were part of the Soviet Union are now independent. We saw the five leaders of the five countries in Central Asia meet in the White House with Trump. They all came here. In addition, the South Caucasus countries like Azerbaijan and Armenia, which were part of the Soviet Union, are now very much under American influence and economics. In the east, they have this threat coming—that's not yet there because Central Asia is not in that position—but the eastern border is not secure. The southern border is not secure. And if the Chinese border also is now with a China that is in some sense aligned—not aligned with but aligned with the United States—the entire southern border of Russia is in danger.

When I look at Russia, I see it not as a global power, but only as a regional power. Even as a regional power in trying to define its western frontier, it has failed with the job to really do it. The idea that after all this, they're going to suddenly invade elsewhere—well, if they had forces to do that, they would have put them in Ukraine.

We see Russia as no longer the pivot of the world, in a very seriously difficult geopolitical position with all of its borders uncertain. And the US-Chinese relationship really emphasizes the degree to which the Russian economy is irrelevant. Yes, they have oil to ship out. Much more than that, they have little to offer. So the problem of not having an economy is that you don't get a chance to play this game.

The United States and China are global powers. China is actually more a regional power in the Pacific and parts of Asia, whereas the United States is capable on all the oceans of being somewhere. So, you have these two countries entangled and mutually dependent on each other and Russia's out of the game.

Now, the fundamental question, as I said, is what does Europe do? That becomes the question. As for the United States, its focus is not going to be on the Eastern Hemisphere, but on the Western as we already see it happening, no matter who is president. He'd be disentangling from this. We fought too many wars and lost too many lives in the Eastern Hemisphere in the last 80 years.

Ed: George Friedman, always fascinating speaking with you. Thank you, sir, for your time.

George: A pleasure.