

Paramount Flashpoints in 2019

In 2019, expect business gyrations as US and China continue their tug-of-war. As the world has become much interconnected globally, these gyrations are likely to affect almost everyone, to varying degrees. Another major flashpoint is the fallout from the United Kingdom's likely botched "Brexit" drama. Another potentially disruptive flashpoint is the likely global spread of France's "Yellow Vests" movement.

Gazing at a crystal ball for black swans may be a pointless endeavor. But like weather forecast, it is possible to examine current patterns to surmise some paramount flashpoints.

First, the Deputy Chairman and Chief Financial Officer of Huawei, the daughter of China's tech giant's founder, was arrested in Canada, pending possible extradition to the US for trial of alleged fraud and violation of US sanctions on Iran. This has soured already-tenuous US-China relationship over the US-led trade war against China despite a 90-day truce. At the heart of it all is intensifying US-China rivalry for regional, if not global, dominance. Central to such rivalry is 5G mobile technology. This is set to transform how businesses are conducted, how cities are connected, how people communicate, and how the military can gain su-

premacY. Whichever country manages to gain the commanding heights of 5G may well be able to rule the world. Huawei is China's vanguard and currently world leader in 5G development.

The US push-back against China is bipartisan. The original hope that China would become more like the West following admission into the World Trade Organization has fallen by the wayside. Moreover, rather than merely supplying the world with cheap goods, China now begins eating America's lunch at the high-tech table, exemplified by China's "Made in China 2025" strategy. China's trade practices, including perceived 'predatory' measures to appropriate foreign investors' intellectual property, have long been a source of American complaint. Its assertiveness in the South China Sea raises US suspicions that China wants to turn it into a Chinese lake. Coupled



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with perceived suppression of democracy, China's rising influence and ambition, exemplified by its global Belt and Road Initiative, are perceived by the US as a clear and present threat against the liberal world order underpinned by American supremacy.

Ominously, concurrent with the Huawei epistle, an award-winning American-Chinese quantum-computing scientist-cum-entrepreneur with Chinese business connections died suddenly. In Holland, a mysterious fire destroyed a US\$100 mn cutting-edge equipment ordered by China for making sophisticated chips. In Chinese eyes, these coincidences raise more than a whiff of conspiracy theory.

In the circumstances, would any concrete and lasting result ensue from the 90-day truce between the US and China? Would they serve to reset the long-term relationship between these two world powers for the better?

My take is that both sides have steadily walked into these substantial negotiations after months of mutual preparatory groundwork. Both are not starry-eyed as to what can realistically be achieved in a single deal, however substantial. But both are keenly aware that leaving whatever legitimate grievances to fester, such as reciprocity, level-playing field and protection of intellectual property, would not serve either's best interests.

On China's part, complete opening up like the fatal attempt of the former

USSR under Gorbachev would not be conceded. But regulated fast-track opening-up of selected sectors, including finance, services and the consumer market, tally with China's economic transformation. (Indeed, some directives in these areas have already been issued even before the trade war started.) Similarly, protection of intellectual property and maintaining a more level-playing field would be conceded, even though China is unlikely to abandon its model of 'state capitalism' as regards its 'national champions' (not dissimilar to South Korea's chaebols). Hence, a concrete and substantial deal, albeit carefully measured, is probable, the Huawei saga notwithstanding.

But would such a deal reset long-term mutual relations for the better? To the extent of mitigating trade grievances, a meaningful deal will reduce tensions. However, great power rivalry is likely to intensify with continuing Chinese ascendancy in a wide variety of fields. China's recent back-of-the-moon satellite-mission breakthrough and its growing diplomatic ties in Latin America, the very backyard of the US, appear to be harbingers of China's increasing clout. This will remain a wedge in the long-term relations between these two great powers as the prospect when the Chinese economy becomes the world's largest looms in the horizon.

So, in 2019, expect business gyrations as US and China continue their tug-of-war. As the world has become much interconnected globally, these gy-

rations are likely to affect almost everyone, to varying degrees.

Another major flashpoint is the fallout from the United Kingdom's likely botched "Brexit" drama, Theresa May's survival of a no-confidence vote in the Parliament notwithstanding. This supposedly democratic decision to leave the European Union for a future promised land has turned out to be Alice-in-Wonderland. As reality sinks in, it is clear that Britain cannot eat the cake and have it at the same time. The rest of the European Union will not condone this *pour encourager les autres*. Theresa May's proposals, however fudged, are likely to be ditched by the Parliament. The European Union is getting tired of the futility of more re-negotiations. The only way out is for the UK electorate to decide whether to accept May's unpalatable menu, to crash out with no deal at all, or to abandon Brexit altogether. Going back to the electorate would necessitate a second referendum and/or a general election, which may cause the downfall of the conservative government. Either way, the British Pound is likely to remain jittery, with possible major swings one way or the other. Global businesses connected with the UK are likely to vacillate likewise.

Another potentially disruptive flashpoint is the likely global spread of France's "Yellow Vests" movement. While not exactly storming the Bastille, the French movement is no less a revolution against the elite and growing sense of inequality. The movement has begun to spread to Belgium and Holland. This tallies with the rising tide of populism, anti-globalization and anti-capitalism across the globe. The undercurrent of social discontent reflects a global disconnect between the haves and have-nots, between the so-called 1% and the 99%, who feel their politicians are shortchanging them in favor of the elite. According to Piketty's *Capital in the 21st Century*, we are at the point of history where the gulf of inequality is approaching such ominous moments as before the French Revolution and during the Gatsby decades. We are thus unlikely to see the last of the "Yellow Vests" in 2019, in France or elsewhere.



Image: AP



Image: South China Morning

Another 2019 flashpoint is likely to be “Climate Change”. 2018 witnessed one of the region’s worst and most devastating typhoons in Hong Kong in decades. We do not have to look hard to see a rising pattern of more and more severe weather conditions around the world, including hurricanes and freak heatwaves. Satellite images of melting ice-caps and retreating glaciers are ringing alarming bells. Water scarcity is becoming more prevalent, resulting in hunger and conflicts. Biodiversity has been seeing unprecedented shrinkages in centuries, threatening human food chains. Climate change is getting very up-close and personal.

The historic Paris Agreement was ratified by 179 countries including the US, China and many Western and developing nations alike. It was a global affirmation that human actions are needed to avert sleep-walking over the tipping point of “Gaia’s Revenge”. However, the world’s second largest carbon emitter, the US, has now withdrawn from the Paris accord. Moreover, amidst global economic slowdown, waning efforts to reach national voluntary targets have caused alarms at the latest Climate Summit in Katowice, Poland.

In October 2018, an Intergovernmental Panel on climate change report warned that climate change impacts are worse than expected as emissions keep rising. As James Lovelock points out, Gaia’s Revenge can come very quickly and irreversibly as feedback-loops accelerate the endgame.

We are unlikely to witness any climate change tipping point in 2019. But we will probably see a worsening pattern of weather-related ravages across the globe, resulting in humanitarian disasters and hikes in insurance premiums.

In addition, “terrorism” may return to haunt cities across the globe with a vengeance. While ISIS has lost almost all of its occupied territories, it is showing signs of re-grouping, this time in small pockets scattered across its sphere of influence. These small groupings are suited to wildcat terrorism attacks in western cities. We are likely to be shocked by one or more of such atrocities in 2019.

To the above list of probable woes should be added recent anxiety of the world’s leading central bankers about “the global economy”, following a decade of easy money, or calling a spade a spade, money-printing. European Central Banker Mario Draghi says that “the balance of risks is moving to the downside”. Rising protectionism, emerging-market turmoil, Italy’s budget battles and Brexit have already taken a toll on confidence, demand and economic growth. The US-China trade war has thrown a large spanner in the works. There is also speculation about how close the US economy is to a recession, its current boom-time notwithstanding.

Last but not least is the likely “downward plummet of oil prices worldwide” as a result of structural change in

demand, particularly from China, the world’s largest energy customer, towards greener and more efficient energies. A slowing global economy also reduces demand substantially. In any case, the age of oil seems numbered. The Internet age has transformed the world of production and businesses. Green cars are the rage of the era. Even Arab oil behemoths like Saudi Arabia are trying to diversify their economy. As former Saudi oil minister famously said, “The Age of Stone ended not for lack of stones. So would the Age of Oil”. The drop in oil prices should be good news for most energy-dependent economies, however. But it will play havoc with the economies and oil production of the world’s main oil producers.

Some of the above risks are captured in forecasts by the world’s leading banks such as “HSBC and Nomura”. The latter’s “Nine grey swans for 2019” predicts that oil price could drop to \$20 a barrel in 2019. On the other hand, it also paints more welcome scenarios, such as an end to populism, an Italian revival, and a take-off in global growth. HSBC also has its share of more positive outlooks, such as an end to trade tensions, and green shoots of structural reform in a host of emerging economies. I am afraid I am sounding like a pessimist. But strangely, I consider myself an optimistic realist.

For I do believe that human development and history do not proceed in a straight line. There are always twists and turns. It is often through a series of catharsis, accompanied by pain and suffering, that nations may learn tolerance, mutual respect, and how to play win-win instead of a zero-sum game; that electorates may finally realize that wishful-thinking does not lead to utopia; that societies may fracture without inclusive policies; that failed states with marginalized peoples produce terrorism; and that ultimately we live in one single global village where Mother Nature, or Gaia, knows no boundaries, for better or for worse. ■

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