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"It's not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change."

-CHARLES DARWIN

And now for something almost completely different. John Mauldin has become a major force in the financial media through his weekly newsletter, *Thoughts from the Frontline*. His highly popular publication is received by many EVA readers and about two million other subscribers around the world. In addition to this letter that he personally authors, John publishes his *Outside the Box* service in which he showcases the work of other investment, economic, and geopolitical commentators. On occasion, he's even been in such desperate need of content that he's decided to run essays from a certain money management firm, with a congenitally contrarian bent—none other than Evergreen GaveKal located at the center of the financial universe in Bellevue, WA.

In this week's guest EVA, I'm "rebroadcasting" an *Outside the Box* issue John recently ran written by Dr. Ian Bremmer. It's my belief you'll find it a refreshing break from the incessant coverage of the ongoing European debacle. Earlier this year, we were of the adamant opinion that the financial markets were making a grave error in assuming the eurozone's myriad problems were—to use that star-crossed word—contained. Lately, though, the pendulum has swung fully to the other side with many now seeing Portugal, Italy, Greece, and Spain as the parade to the post for the running of the Four Horsemen of the Apocalypse.

Dr. Bremmer's interesting thesis is that we are transitioning into a highly volatile world bereft of leadership. But lest you think this is another of those tiresome epitaphs for America, you'd be badly mistaken. In fact, his closing section is uncannily close to my view of why the US will continue to flourish. Naturally, this is one reason I feel it's exceptionally perceptive! In this rapidly evolving and unstable world in which we now live, adaptability reigns supreme and the USA has that in enviable abundance.

Finally, he also touches on one of my favorite topics: the inescapable reality that the world's four most influential economic blocs—Europe, the US, China, and Japan—all need an extreme makeover.

This is a good read and I hope you find it as thought provoking as I did.

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EVERY NATION FOR ITSELF: WINNERS AND LOSERS IN A G-ZERO WORLD

Ian Bremmer

apa Valley, California. As part of the introduction, I included a few thoughts on the G20, the forum in which 19 countries plus the European Union bargain over solutions to pressing international problems. I made my case for why I believe the G20 is a dysfunctional institution that will create as many problems as it solves. The speech complete, I joined members of the audience for dinner on a beautiful terrace overlooking a vineyard. Our host, spotting an opportunity for lively conversation, seated me next to a distinguished looking gentleman I'd never met—former Canadian Prime Minister Paul Martin. This is the man who created the G20.

As Canada's finance minister (1993-2002), then prime minister (2003-2006), Martin warned that Western dominance of international financial institutions couldn't last and that the world needed

a new bargaining table, one that welcomed leading emerging powers as full partners. Martin's argument fell on deaf ears in America, Europe, and Japan—until the 2008 financial crisis made his point for him.

Menus closed, Martin and I began a friendly debate. I argued that 20 negotiators never agree on anything of substance unless and until they feel threatened by the same problem at the same time and to more or less the same degree. In other words, twenty is just too many. Making matters more complicated, these twenty don't even agree on the value of multiparty democracy and free market capitalism. Martin countered that major emerging powers can't simply be excluded and that the G20 gives more countries than ever a stake in the success of the global economy and in meeting the world's greatest political and security challenges. As dessert arrived, we agreed to disagree.

Then Martin told me something I hadn't expected. He didn't put forward the G20 idea mainly to improve global governance. Instead, it was the product of his careful calculation of what was best for Canada. His country had long been a member of the G7, a privileged position. But years before the market meltdown of 2008, Paul Martin understood that the world's balance of power was changing more quickly than many realized and that the G7 was fast becoming irrelevant. He became convinced that Canada needed to exchange its first class seat on a sinking ship for a secure spot on a bigger boat. By leading the effort to build that boat, Martin believed that Canada could win valuable new friends. The G20, dysfunctional or not, is now a fixture of international politics.

As we dropped our napkins on the table and headed into the night, I replayed the conversation in my mind. I found myself thinking of an enormous poker table, one where each player minds his stack of chips, watches the 19 others, and waits for his best opportunity to play the hand he's been dealt. This is not a global order; it's a world of "every nation for itself." If the G7 no longer matters and the G20 doesn't work, then what is this world we now live in? I wrote the book to answer that question.

In short, it's a world without leadership. That's unfortunate, because at a time when so many problems transcend borders—from regional conflicts to climate change and threats to global market stability to cyber-attacks, terrorism, and the security of food and water—the need for international cooperation has never been greater. Cooperation demands leadership. Leaders have the leverage to coordinate multinational responses to transnational problems. They have the wealth and power to persuade other governments to take actions they wouldn't otherwise take. They pick up the checks that others can't afford and provide services no one else will pay for. Leaders set the agenda.

Where have the leaders gone? In the United States, a war-weary public is ever more wary of the country's mounting debt. In Europe, a more immediate debt crisis continues to undermine confidence in the future of the single currency—and of the European idea. In Japan, last year's earthquake, tsunami, and nuclear meltdown have only added to the long-term damage of two decades of political and economic malaise. Not so long ago, America, Western Europe and Japan were the world's powerhouses. Today, they're struggling to recover their dynamism.

But nor are rising powers like China, India, Brazil, Turkey, the Gulf Arabs and others ready to take up the slack. For emerging nations, emergence is a full-time job. The governments of these countries still face complex development challenges that demand too many resources and too much time, energy, attention, and money to accept major new risks and burdens abroad. China,

in particular, must pass a series of enormous tests in coming years if it is to remain politically stable in something like its current form. Its leadership knows it must build a modern, middle-class country with a 21st century social safety net. It must reduce the country's reliance on exports by fueling greater domestic demand for Chinese-made products by transferring enormous amounts of wealth from state-owned companies to Chinese consumers. It must manage the environmental fallout of its enormous growth. It must absorb and redirect rising public demand for change to preserve the ruling party's monopoly hold on political power.

If not the West, the rest, or the institutions where they come together, who will lead? The answer is, no one. Neither the once-dominant G7 nor the unworkable G20. We have entered the G-Zero, a world in which, for the first time since the end of World War II, there is no single power or alliance of powers ready to take on global leadership.

The G-Zero story isn't about the decline of the West or the rise of China, because America and Europe have overcome adversity before and are well-equipped over the long run to do it again, and China faces a highly uncertain future. It's the story of a world in transition, one that's especially vulnerable to crises that appear suddenly and from unexpected directions. Nature still hates a vacuum, and the G-Zero won't last forever. But over the next decade and perhaps longer, the G-Zero will both incubate new sources of conflict, make almost all of them more difficult to manage, and push international politics toward multiple forms of turmoil. A world without leaders will undermine our ability to keep the peace, expand opportunity, reverse the impact of climate change, and feed growing populations. Its effects will have implications for our politics, business, information, communication, security, food, air and water. It will be felt in every region of the world—and even in cyberspace.

Winners and losers

Every era has its winners and losers, and the G-Zero will be no different. It is not merely strength but adaptability and resilience that are the attributes most likely to produce prosperity in a G-Zero world. Countries that have choices among political, security and commercial partners are much better able to navigate a world that generates shocks from unexpected directions. Because Brazil does big business with both China and the United States, its economy emerged with relatively little damage from the US financial market meltdown and the recession which followed. Mexico, on the other hand, which is far more dependent on the United States for its export revenue, tourism income, and remittances from workers living abroad took a much tougher hit. If you're going to rely too heavily for growth on the stability of a single economic partner, the United States is an excellent long-term option. But Brazil's diversified trade relations give its economy a resilience that Mexico can't yet match.

Turkey is a Middle East heavyweight, a NATO member and a bridge between Europe and Asia. South Africa has extensive trade relations with Europe and deepening political and economic ties with China, Russia, India and Brazil. Kazakhstan has historical ties with Russia, deepening commercial relations with both China and Germany. That's why Turkey, South Africa and Kazakhstan are "pivot states." Their flexibility is crucial for their stability and prosperity.

Like Mexico, Ukraine is what I call a "shadow state," a country that can't pivot. Much of Ukraine's population favors stronger political, economic and cultural relations with Europe, but the government of this former Soviet republic knows that for at least the next several years, it will have to protect the country's traditional ties with Russia. Why? Because Russia supplies most of Ukraine's energy and has proven more than once that it's willing to use its natural gas

supplies as a weapon. In the dead of winter in 2009, Gazprom, Russia's natural gas monopoly, cut supplies to Ukraine in a dispute over pricing—and maybe to make a larger point. Moscow wants Kyiv to join a customs union that now includes Russia, Kazakhstan and Belarus, a personal priority for Vladimir Putin, and has promised gas deliveries at affordable prices to sweeten the deal. Ukraine has to take that offer seriously, because higher gas prices would force elected officials to hit voters with onerous new energy taxes.

Ukraine would love to become a pivot state, preserving relations with Russia while building new ties with Europe. In fact, Kyiv would love to sign a free trade agreement with the European Union. But the Kremlin warns that it will throw up new trade barriers if Kyiv signs a deal with Europe, and the EU says it will end trade talks with Ukraine if Kyiv joins Russia's customs union. Ukraine can't win because it can't pivot. It doesn't have the muscle or the independence to improve its bargaining position with either side. The G-Zero era won't be kind to countries like Mexico or Ukraine that remain overly reliant on a single powerful patron for security and/or market opportunities.

Diversification of partnerships and the ability to adapt to fast-changing circumstances will be crucial for companies, as well. Multinationals will have new opportunities to shift operations to places where regulatory and tax burdens are few. Some will use access to advanced technology to align with state-owned rivals, which might allow them a way in to otherwise closed markets. Other companies will offer products and services that help foreign governments achieve their development goals, for example, by investing in China's interior or by providing services to Russian companies looking for new opportunities in the Arctic. Defense firms that can help countries or companies limit the damage inflicted by regional conflicts, organized crime, or increasingly sophisticated cyber-attacks will thrive in the more volatile and less predictable G-Zero world.

What comes next?

The G-Zero is not the new normal. It can't last, because it will create too many problems that demand cooperative solutions. We have to look beyond this era of transition and to consider what will come next. Who will provide leadership in the post G-Zero world?

Don't bet against the United States. Anyone who believes that America is in some kind of irreversible decline has chosen to ignore the entire history of the US and its people. The financial crisis—and China's ability to power its way through the slowdown—have persuaded some that China's state-manipulated form of capitalism is the wave of the future. But let's not forget that, for all its well-documented failings, the free market variety of capitalism has generated a broad prosperity through booms and busts for hundreds of years. State capitalism has no history of lifting developing countries into the developed world. In part, that's because the process of "creative destruction" is not state capitalism's friend. For an authoritarian state like China's, it's a source of unrest. America's system of higher education, the durability of its democracy, its culture of innovation and entrepreneurialism, its relatively strong demographics, and a dozen other factors work in the country's favor. That said, we're very unlikely to return to some form of single superpower world. Not every emerging power will fully emerge, but only a World War II-scale cataclysm could return the world to 1945.

The shape of the post-G-Zero global order will depend on the answer to two questions. First, will relations between America and China be defined mainly by competition and conflict or by complementary interests? Second, will these two countries dominate international politics or can

a variety of other states play an independent and influential global role? I see five broad scenarios:

- A G2 world in which common interests lead US and Chinese leaders mainly to collaborate
- A workable G20 order in which the G-Zero has generated so much trouble that governments are forced to work together to ensure political and economic stability
- A "Cold War 2.0" scenario in which the new order is defined by US-Chinese conflict
- Regionalization of international politics, in which America remains the only global power but in which local heavyweights call most of the shots within their respective neighborhoods
- A disintegration scenario that I call "G-Subzero" in which fragmentation within powerful countries limits the ability of national governments to govern

Fortunately, that last scenario is highly unlikely. The world that follows the G-Zero will probably be some combination of a couple of these different models, but regionalization appears the likeliest result because it's the path we're already on. This is a system in which the United States remains the world's most powerful and influential nation, but in which regional heavyweights are likely to exert extraordinary influence within their respective neighborhoods—for better and for worse.

So what can America's next president, Obama or Romney, and the country's next Congress do about all this? They can accept that the world is changed, that this is not 1960, and that, at least for the time being, the architects of American foreign policy must learn to do more with less. More importantly, they can build a foreign policy that allows US policymakers, America's military, American companies, and American investors to adapt to changing circumstances, partner where necessary, and innovate at every opportunity. They must also do something that Americans don't do often enough: Invest for the longer-term future. They must rebuild the nation's strength from within so that America can afford to be indispensable for the post-G-Zero world.

And I hope that US policymakers will find the courage to bolster the nation's security by sharply reducing its debt burden. No reform that fails to trim the fat from America's sacred cows can accomplish this goal. Deficits do matter, compromise is a virtue, and even a superpower must live within its means.

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