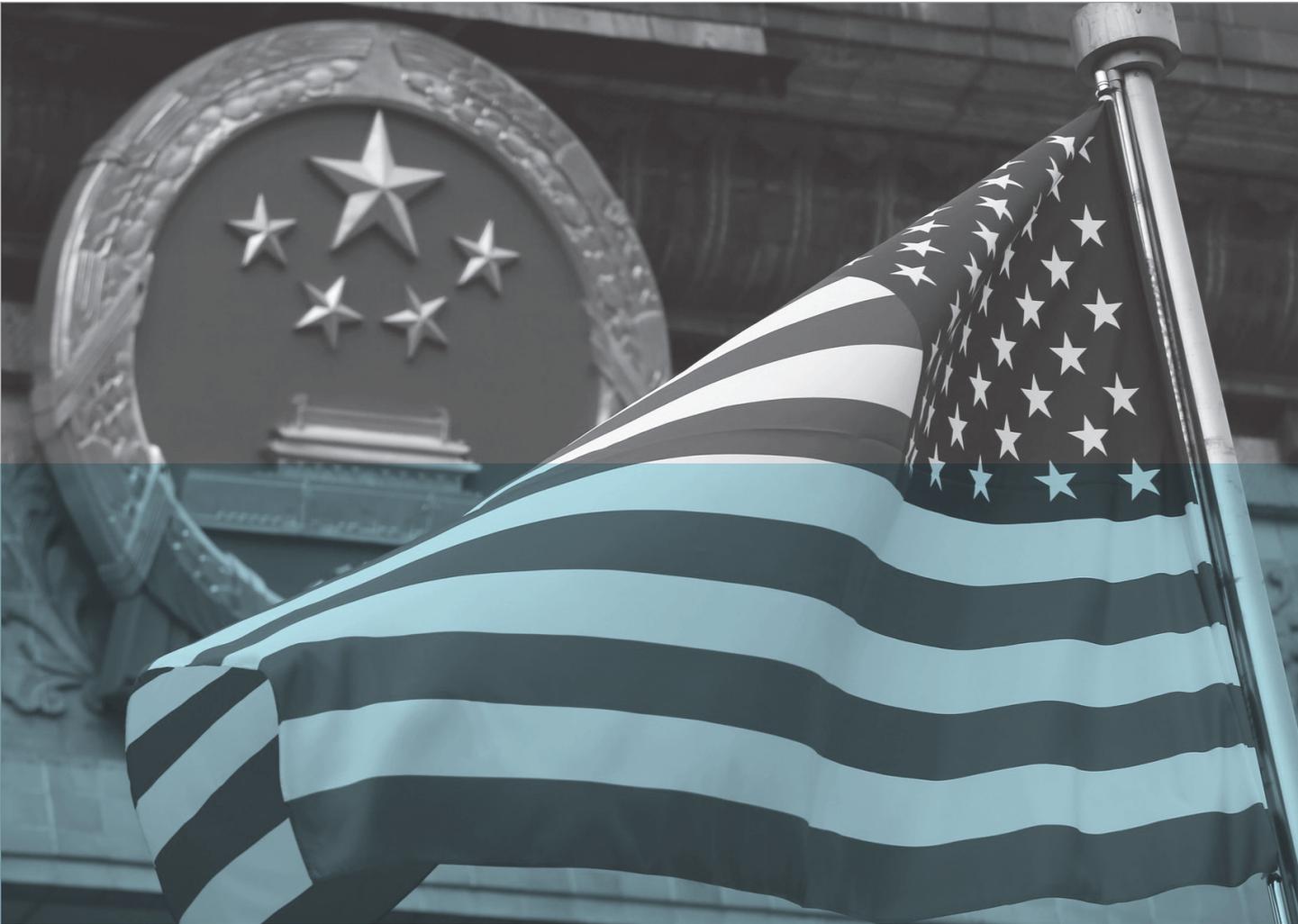


Geopolitics and trade

BY MARKO PAPIĆ



It is highly likely that the US and China will continue to be geopolitical rivals.

- **The Cold War is a limited analogy for the US-China conflict**
- **In a multipolar world, complete bifurcation of trade is difficult if not impossible**
- **History suggests that trade between rivals will continue, with minimal impediments**

There is a growing consensus that China and the US are hurtling towards a Cold War. This thesis remains cogent, but it does not mean that a “Silicon Curtain” will necessarily divide the world into two bifurcated zones of capitalism. Trade, capital flows, and human exchanges between China and the US will continue and may even grow. But the risk of conflict, including a military one, will not decline. Trade and capital flows can continue in parallel with geopolitical tensions, as history and formal political science theory teach us.¹

This report reviews the geopolitical logic that underpins Sino-American tensions and then surveys the academic literature for clues on how that relationship will develop vis-à-vis trade and economic relations. The evidence from political theory is surprising and highly relevant. Finally, the report looks back at history for clues as to what this means for actual trade outcomes.

Our conclusion is that it is highly likely that the US and China will continue to be geopolitical rivals. However, due to the geopolitical context of multipolarity, it is unlikely that the result will be “Bifurcated Capitalism.”

The thucydides trap is real ...

Speaking in the Reichstag in 1897, German Foreign Secretary Bernhard von Bülow proclaimed that it was time for Germany to demand “its own place in the sun.”² The occasion was a debate on Germany’s policy towards East Asia. Bülow soon ascended to the Chancellorship under Kaiser Wilhelm II and oversaw the evolution of German foreign policy from Realpolitik to Weltpolitik. While Realpolitik was characterized by Germany’s cautious balancing of global powers under Chancellor Otto von Bismarck, Weltpolitik saw Bülow and Wilhelm II seek to redraw the status quo through aggressive foreign and trade policy.

Imperial Germany joined a long list of “antagonists,” from Athens to today’s People’s Republic of China, in the tragic play of human history dubbed the “Thucydides Trap.”³

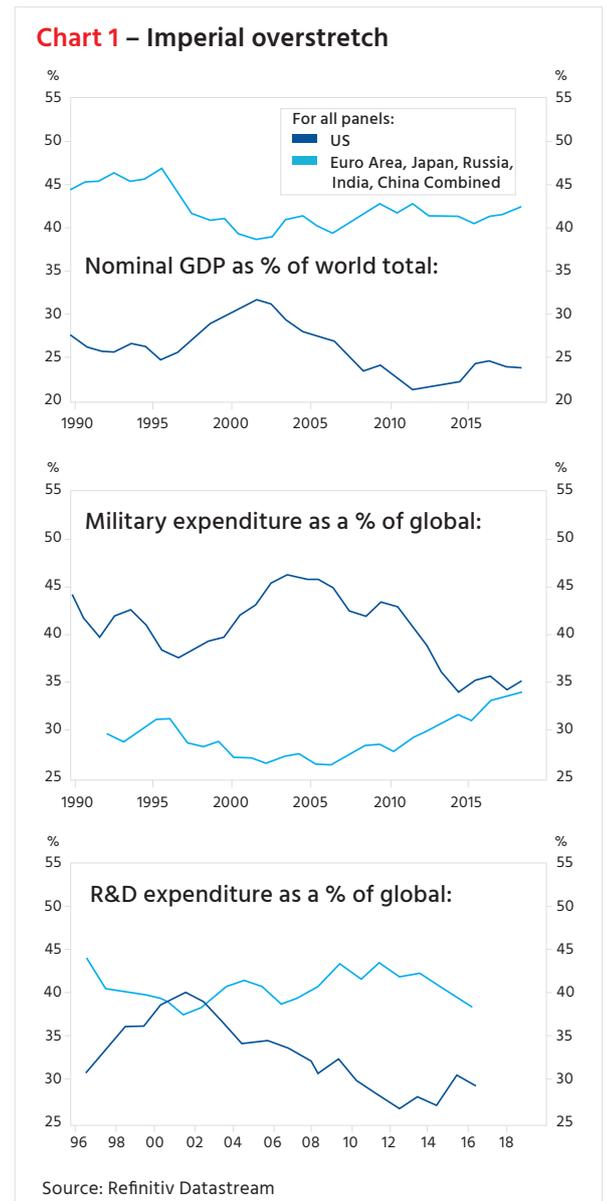
The underlying concept is well known to all students of world history. It takes its name from the Greek historian Thucydides and his seminal History of the Peloponnesian War. Thucydides explains why Sparta and Athens went to war but, unlike his contemporaries, he does not moralize or blame the gods. Instead, he dispassionately describes how the conflict between a revisionist Athens and established Sparta became inevitable due to a cycle of mistrust.

Graham Allison, one of America's preeminent scholars of international relations, has argued that the interplay between a status quo power and a challenger has almost always led to conflict. In twelve out of the sixteen cases he surveyed, actual military conflict broke out. Of the four cases where war did not develop, three involved transitions between countries that shared a deep cultural affinity and a respect for the prevailing institutions.⁴ In those cases, the transition was a case of new management running largely the same organizational structure. And one of the four non-war outcomes was nothing less than the Cold War between the Soviet Union and the US.

The fundamental problem for a status quo power is that its empire or "sphere of influence" remains the same size as when it stood at the zenith of power. However, its decline in a relative sense leads to a classic problem of "imperial overstretch." The

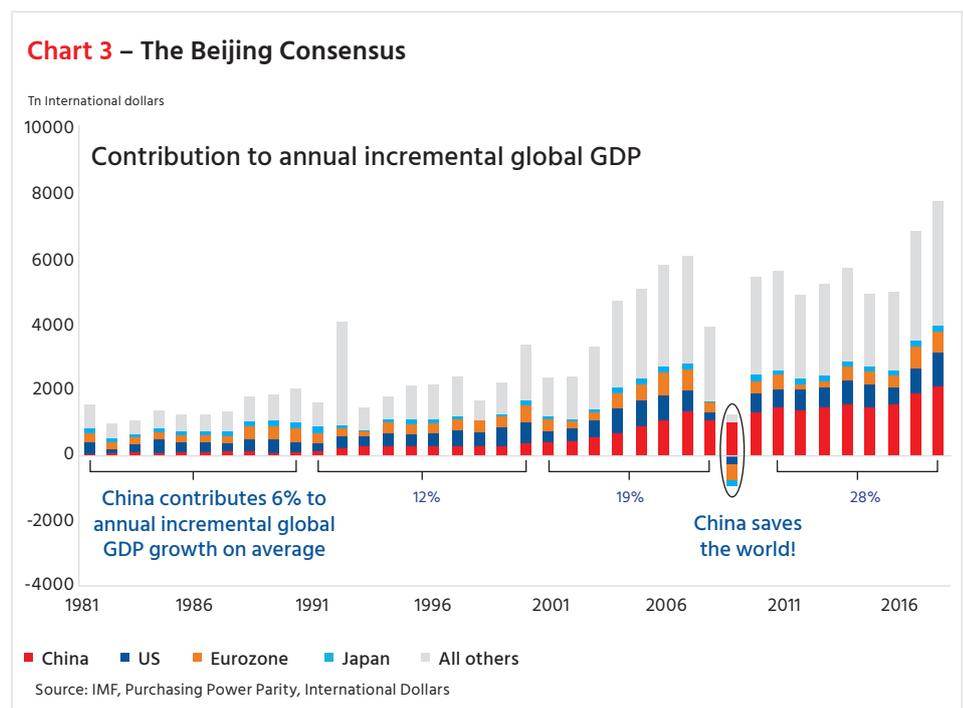
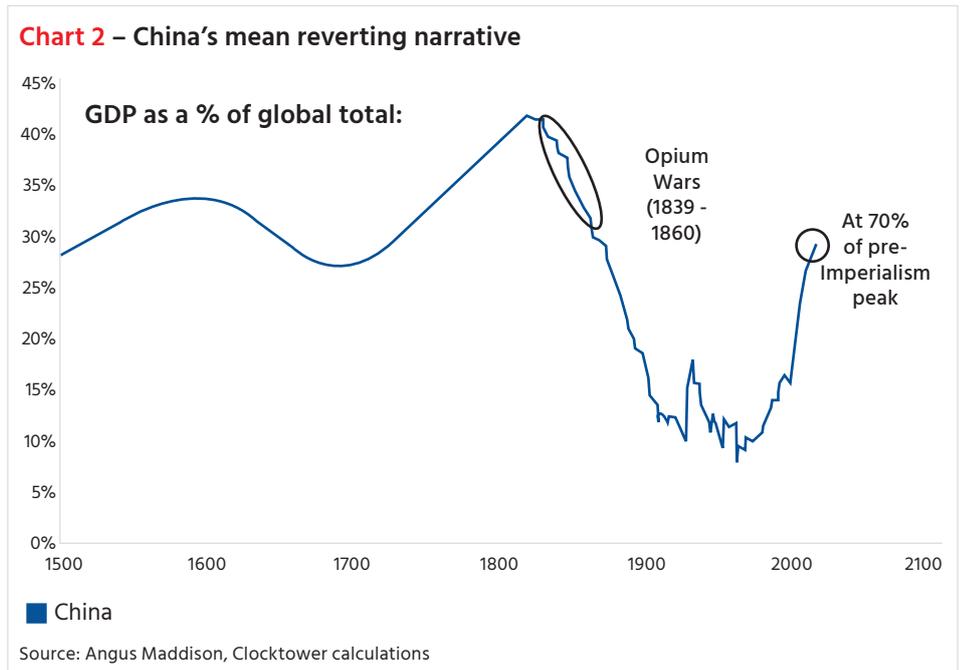
hegemonic or imperial power erroneously doubles down on maintaining a status quo that it can no longer afford (Chart 1).

The challenger power is not blameless. It senses weakness in the hegemon and begins to develop a regional sphere of influence. The problem is that regional hegemony is a perfect jumping off point towards global hegemony. And while the challenger's intentions may be limited and restrained (though they often are ambitious and overweening), the status quo power must react to capabilities, not intentions. The former are material and real, whereas the latter are perceived and ephemeral.



China is a “challenger” power only if one describes the status quo as the past three hundred years.

The challenging power always has an internal logic justifying its ambitions. In China’s case today, there is a sense among the elite that the country is merely mean-reverting to the way things were for many centuries in China’s and Asia’s long history (Chart 2). In other words, China is a “challenger” power only if one describes the status quo as the past three hundred years. It is the “established” power if one goes back to an earlier state of affairs. As such, the consensus in China is that it should not have to pay deference to the prevailing status quo given that the contemporary context is merely the result of western imperialist “challenges” to the established Chinese and regional order.



China has a legitimate claim that it is at least as relevant to the global economy as the US.

In addition, China has a legitimate claim that it is at least as relevant to the global economy as the US and therefore deserves a greater say in global governance. While the US still takes a larger share of the global economy, China has contributed 23% to incremental global GDP over the past two decades, compared to 13% for the US (Chart 3).

Bottom Line: The emerging tensions between China and the US fit neatly into the theoretical and empirical outlines of the Thucydides Trap. There appears to be no way for the two countries to avoid struggle and conflict on a secular or forecastable horizon.

What does this mean for global trade? Is the global economy destined to witness complete bifurcation into two armed camps separated by a Silicon Curtain? Will the Alibaba and Amazon Pacts suspiciously glare at each other the way that NATO and Warsaw Pacts did amidst the Cold War? The answer, tentatively, is no.

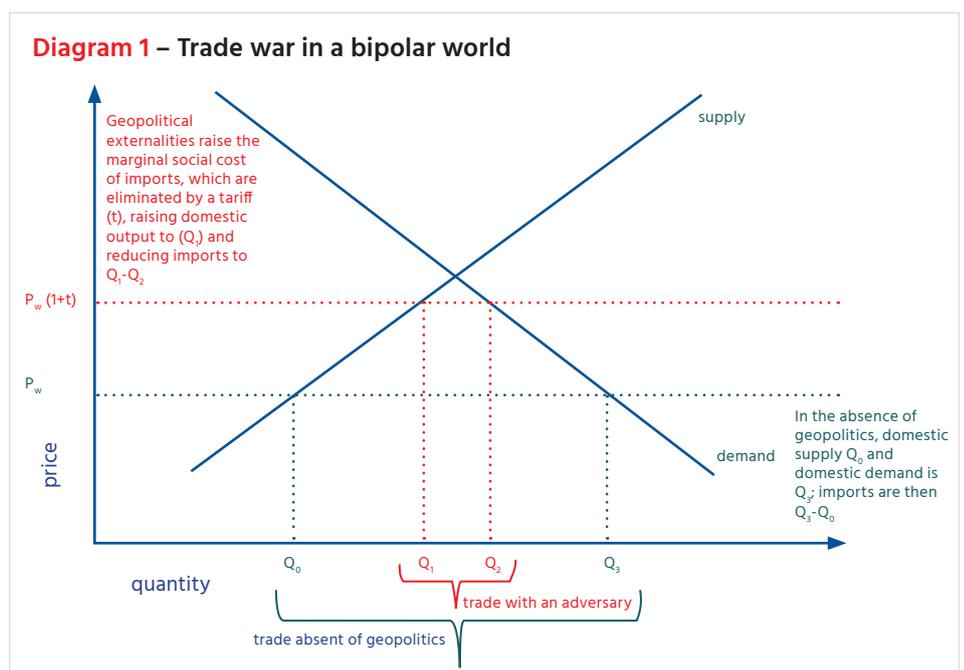
... But it will not lead to economic bifurcation

President Trump’s aggressive trade policy also fits neatly into political theory, to a point.

Two states that care only about relative gains due to rivalry produce a zero-sum game with no room for cooperation.

Realism in political science focuses on relative gains – gains relative to one’s adversary – over absolute gains in all relationships, including trade. This is because trade leads to economic prosperity, prosperity to the accumulation of economic surplus, and economic surplus to military spending, research, and development. Two states that care only about relative gains due to rivalry produce a zero-sum game with no room for cooperation. It is a “Prisoner’s Dilemma” that can lead to sub-optimal economic outcomes in which both actors chose not to cooperate.

Diagram 1 illustrates the effects of relative gain calculations on the trade behavior of states. In the absence of geopolitics, demand (Q_3) is satisfied via trade (Q_3-Q_0) due to the inability of domestic production (Q_0) to meet it.



However, geopolitical externality – a rivalry with another state – raises the marginal social cost of imports – i.e. trade allows the rival to gain more out of the trade relationship and “catch up” in terms of geopolitical capabilities. The importing state therefore eliminates such externalities with a tariff (t), raising domestic output to Q1, while shrinking demand to Q2, thus reducing imports to merely Q2- Q1, a fraction of where they would be in a world where geopolitics do not matter.

The dynamic of relative gains can also have a powerful pull on the hegemon as it begins to weaken and rethink its originally magnanimous trade relations. As political scientist Duncan Snidal argued in a 1991 paper,

When the global system is first set up, the hegemon makes deals with smaller states. The hegemon is concerned more with absolute gains, smaller states are more concerned with relative, so they are tougher negotiators. Cooperative arrangements favoring smaller states contribute to relative hegemonic decline. As the unequal distribution of benefits in favor of smaller states helps them catch up to the hegemonic actor, it also lowers the relative gains weight they place on the hegemonic actor. At the same time, declining relative preponderance increases the hegemonic state's concern for relative gains with other states, especially any rising challengers. The net result is increasing pressure from the largest actor to change the prevailing system to gain a greater share of cooperative benefits.⁵

The reason small states are initially more concerned with relative gains is because they are far more concerned with national security than the hegemon. The hegemon has a preponderance of power and is therefore more relaxed about its security needs. This explains why Presidents George Bush Sr., Bill Clinton, and George Bush Jr. all made “bad deals” with China.

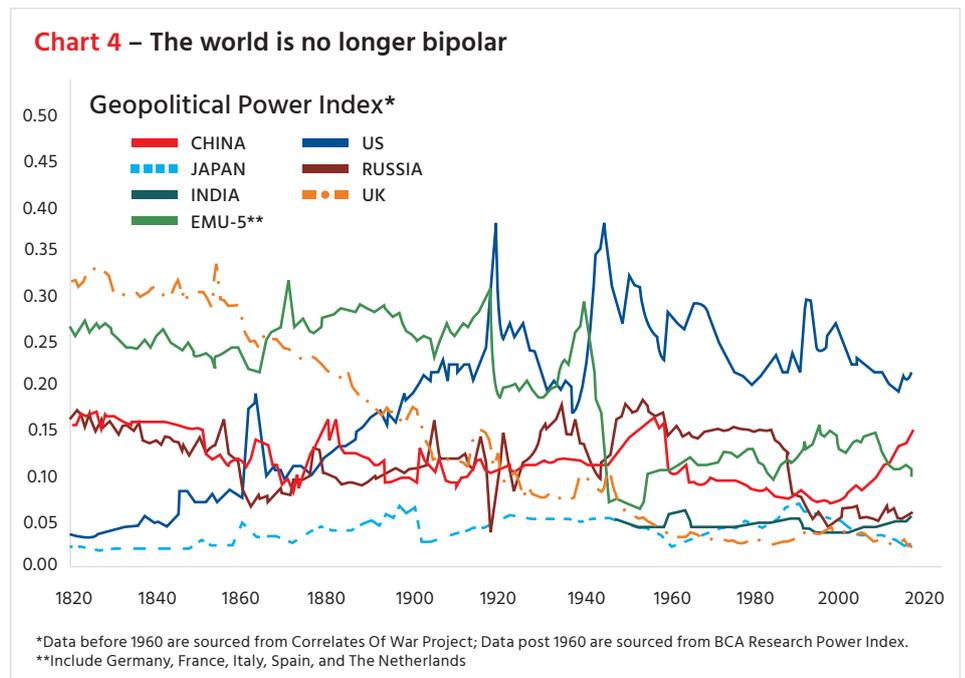
Writing nearly thirty years ago, Snidal cogently described the current US-China trade war. However, Snidal thought he was describing a coming decade of anarchy. But he and fellow political scientists writing in the early 1990s underestimated American power. The “unipolar moment” of American supremacy was not over, it was just beginning! As such, the dynamic Snidal described took thirty years to come to fruition.

When thinking about the transition away from US hegemony, most commentators anchor themselves to the Cold War as it is the only world they have known that was not unipolar. Moreover the Cold War provides a simple, bipolar distribution of power that is easy to model through game theory. If this is the world we are about to inhabit, with the US and China dividing the whole planet into spheres like the US and Soviet Union, then the paragraph from Snidal's paper would be the end of it. America would abandon globalization in totality, impose a draconian Silicon Curtain around China, and coerce its allies to follow suit.

But most of recent human history has been defined by a multipolar distribution of power between states, not a bipolar one. The term “cold war” is applicable to the US and China in the sense that comparable military power may prevent them from fighting a full-blown “hot war.” But ultimately the US-Soviet Cold War is a poor

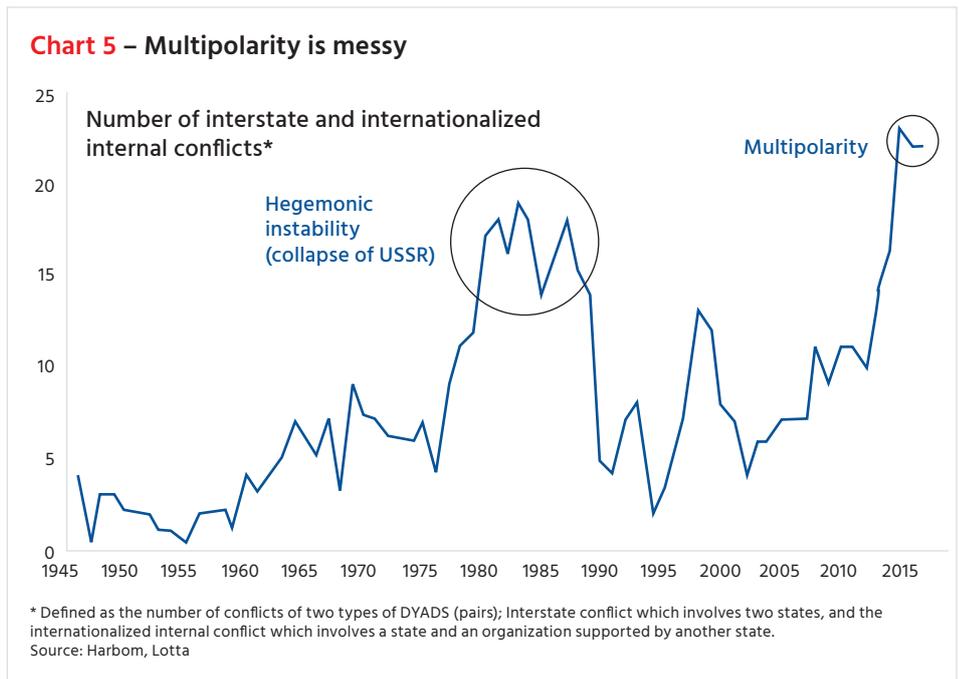
analogy for today’s world. In a multipolar world, Snidal concludes, “states that do not cooperate fall behind other relative gains maximizers that cooperate among themselves. This makes cooperation the best defense (as well as the best offense) when your rivals are cooperating in a multilateral relative gains world.” Snidal shows via formal modeling that as the number of players increases from two, relative-gains sensitivity drops sharply.⁶

The US-China relationship does not occur in a vacuum — it is moderated by the global context.



The US-China relationship does not occur in a vacuum — it is moderated by the global context. Today’s global context is one of multipolarity. Multipolarity refers to the distribution of geopolitical power, which is no longer dominated by one or two great powers (Chart 4). Europe and Japan, for instance, have formidable economies and military capabilities. Russia remains a potent military power, even as India surpasses it in terms of overall geopolitical power.

A multipolar world is the least “ordered” and the most unstable of world systems.



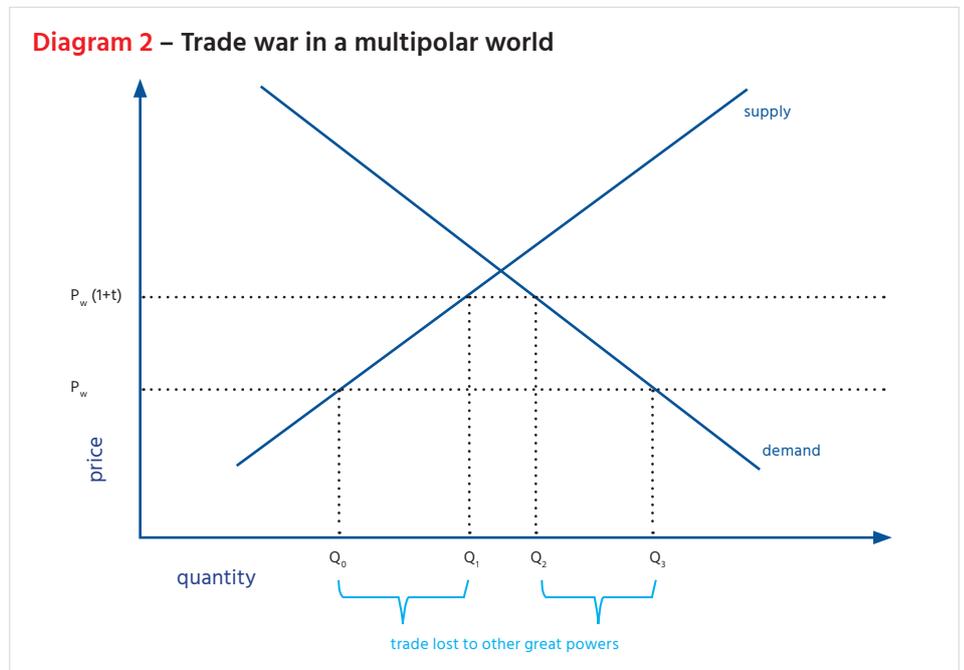
A multipolar world is the least “ordered” and the most unstable of world systems (Chart 5). This is for three reasons:

- Math: Multipolarity engenders more potential “conflict dyads” that can lead to conflict. In a unipolar world, there is only one country that determines norms and rules of behavior. Conflict is possible, but only if the hegemon wishes it. In a bipolar world, conflict is possible, but it must align along the axis of the two dominant powers. In a multipolar world, alliances are constantly shifting and producing novel conflict dyads.
- Lack of coordination: Global coordination suffers in periods of multipolarity as there are more “veto players.” This is particularly problematic during times of stress, such as when an aggressive revisionist power uses force or when the world is faced with an economic crisis. Charles Kindleberger has argued that it was exactly such hegemonic instability that caused the Great Depression to descend into the Second World War in his seminal *The World In Depression*.⁷
- Mistakes: In a unipolar and bipolar world, there are a very limited number of dice being rolled at once. As such, the odds of tragic mistakes are low and can be mitigated with complex formal relationships (such as US-Soviet Mutually Assured Destruction, grounded in formal modeling of game theory). But in a multipolar world, something as random as an assassination of a dignitary can set in motion a global war. The multipolar system is far more dynamic and thus unpredictable.

Global coordination suffers in periods of multipolarity as there are more “veto players.”

Diagram 2 is modified for a multipolar world. Everything is the same, except that the trade lost to other great powers is highlighted. The state considering using tariffs to lower the marginal social cost of trading with a rival must account for

this “lost trade.” In the context of today’s trade war with China, this would be the sum of all European Airbuses and Brazilian soybeans sold to China in the place of American exports. For China, it would be the sum of all the machinery, electronics, and capital goods produced in the rest of Asia and shipped to the United States.



But could Washington ask its allies – Europe, Japan, South Korea, Taiwan, etc. – to forego the lucrative trade $(Q_3-Q_0)-(Q_2-Q_1)$ lost due to its trade tiff with China? Sure, but empirical research shows that American allies would likely ignore such pleas for unity. Alliances produced by a bipolar system produce a statistically significant and large impact on bilateral trade flows, a relationship that weakens in a multipolar context. This is the conclusion of a 1993 paper by Joanne Gowa and Edward D. Mansfield.⁹ The authors draw their conclusion from an eighty-year period beginning in 1905, which captures several decades of global multipolarity.

Unless the US produces a wholehearted diplomatic effort to tighten up its alliances and enforce trade sanctions – something hardly foreseeable under the Trump administration – the self-interest of US allies will drive them to continue trading with China. The US will not be able to exclude China from the global system; nor will China be able to achieve Xi Jinping’s vaunted “self-sufficiency.”

A risk to this view is that we have misjudged the global system, just as political scientists writing in the early 1990s did. To that effect, it is accepted that Chart 1 and 4 do not really support a view that the world is in a balanced multipolar state. The US clearly remains the most powerful country in the world. The problem is that it is also clearly in a relative decline and that its sphere of influence is global – and thus very expensive – whereas its rivals have merely regional ambitions (for the time being). As such, it is conceded that American hegemony could be reasserted relatively quickly, but it would require a significant calamity in one of the other poles of power: a breakdown in China’s internal stability alongside the persistence of US political stability, for instance.

The trade war between US and China is geopolitically unsustainable.

Bottom Line: The trade war between US and China is geopolitically unsustainable. The only way it could continue is if the two states existed in a bipolar world where the rest of the states closely aligned themselves behind the two superpowers. It is suggested that today’s world is – for the time being – multipolar.

American allies will cheat and skirt around Washington’s demands that China be isolated. This is because the US no longer has the preponderance of power that it enjoyed in the last decade of the twentieth and the first decade of the twenty-first century.

Insights presented thus far come from formal theory in political science. What does history teach us?

Trading with the enemy

In 1896, a bestselling pamphlet in the UK, “Made in Germany,” painted an ominous picture: “A gigantic commercial State is arising to menace our prosperity, and contend with us for the trade of the world.”⁹ Look around your own houses, author E.E. Williams urged his readers. “The toys, and the dolls, and the fairy books which your children maltreat in the nursery are made in Germany: nay, the material of your favorite (patriotic) newspaper had the same birthplace as like as not.” Williams later wrote that tariffs were the answer and that they “would bring Germany to her knees, pleading for our clemency.”¹⁰

By the late 1890s, it was clear to the UK that Germany was its greatest national security threat. The German Navy Laws of 1898 and 1900 launched a massive naval buildup with the singular objective of liberating the German Empire from the geographic constraints of the Jutland Peninsula. By 1902, the First Lord of the Royal Navy pointed out that “the great new German navy is being carefully built up from the point of view of a war with us.”¹¹

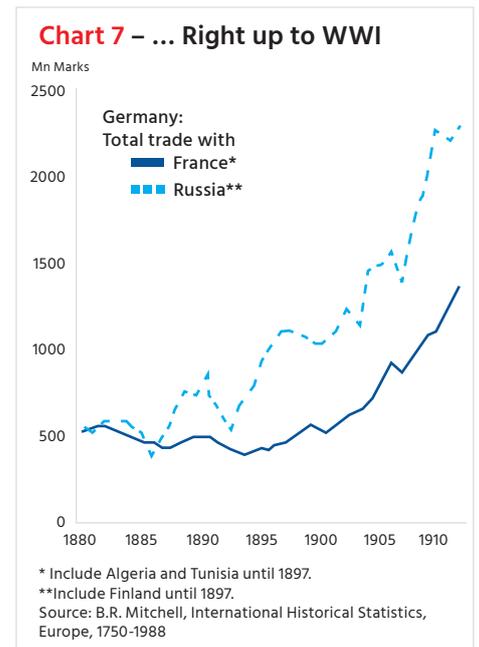
There is absolutely no doubt that Germany was the UK’s gravest national security threat. As a result, London signed in April 1904 a set of agreements with France that came to be known as Entente Cordiale. The entente was immediately tested by Germany in the 1905 First Moroccan Crisis, which only served to strengthen the alliance. Russia was brought into the pact in 1907, creating the Triple Entente.

In hindsight, the alliance structure was obvious given Germany’s meteoric rise from unification in 1871. However, one should not underestimate the magnitude of these geopolitical events. For the UK and France to resolve centuries of differences and formalize an alliance in 1904 was a tectonic shift — one that they undertook against the grain of history, entrenched enmity, and ideology.¹²

Political scientists and historians have noted that geopolitical enmity rarely produces bifurcated economic relations exhibited during the Cold War.

Political scientists and historians have noted that geopolitical enmity rarely produces bifurcated economic relations exhibited during the Cold War. Both empirical research and formal modeling shows that trade has and does occur even amongst rivals and during wartime.¹³

This was certainly the case between the UK and Germany, whose trade steadily increased right up until the outbreak of World War One (Chart 6). Could this be written off due to the UK’s ideological commitment to laissez-faire economics?

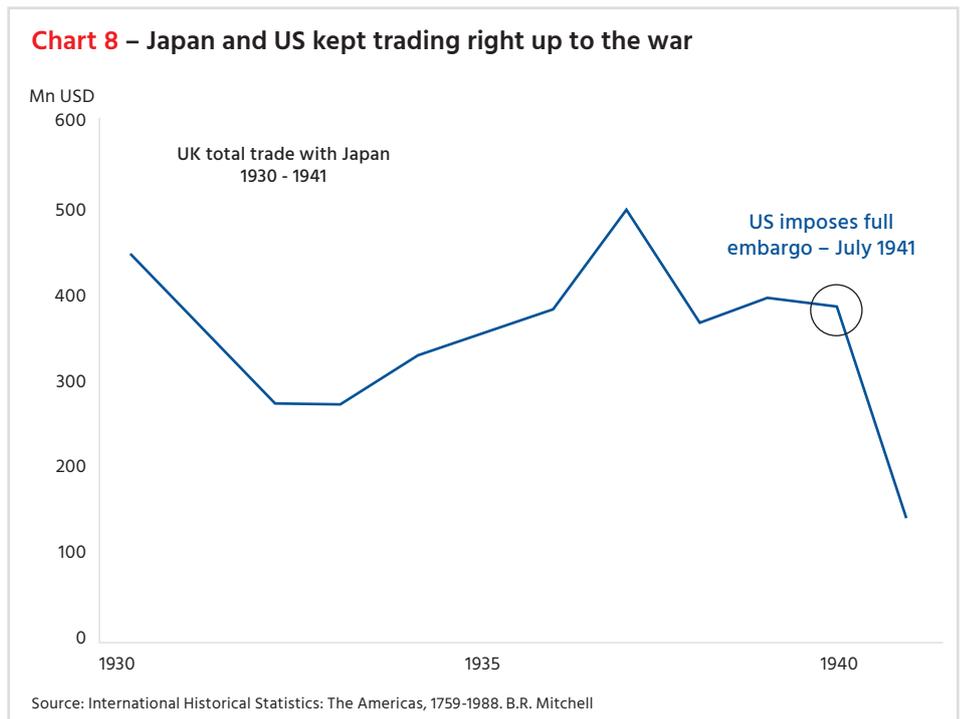


Or perhaps London feared a move against its lightly defended colonies in case it became protectionist?

These are fair arguments. However, they do not explain why Russia and France both saw ever-rising total trade with the German Empire during the same period (Chart 7). Either all three states were led by incompetent policymakers who somehow did not see the war coming – unlikely given the historical record – or they simply could not afford to lose out on the gains of trade with Germany to each other.

Japan and the US kept trading right up to the outbreak of war.

A similar dynamic was afoot ahead of World War Two. Relations between the US and Japan soured in the 1930s, with the Japanese invasion of Manchuria in 1931. In 1935, Japan withdrew from the 1922 Washington Naval Treaty – the bedrock of the Pacific balance of power – and began a massive naval buildup. In 1937, Japan invaded China. Despite a clear and present danger, the US continued to trade with Japan right up until 26 July, 1941, few days after Japan invaded southern Indochina (Chart 8). On 7 December, Japan attacked the US.



A skeptic may argue that precisely because policymakers sleepwalked into war in the First and Second World Wars, they will not (or should not) make the same mistake this time around.

First, the author is not making policy prescriptions and therefore is not concerned with what should happen. Second, the author is highly skeptical of the view that policymakers in the early and mid-twentieth century were somehow defective (as opposed to today’s enlightened leaders). A constraints-based framework urges that systemic reasons for the behavior of leaders be sought for.

Political science provides a clear theoretical explanation for why London and Washington continued to trade with the enemy despite the clarity of the threat. The answer lies in the systemic nature of the constraint: a multipolar world reduces the sensitivity of policymakers to relative gains by introducing a collective action problem given the changing alliances and the difficulty of disciplining allies’ behavior.

In the case of US and China, this is further accentuated by President Trump’s strategy of skirting multilateral diplomacy and intense focus on mercantilist measures of power (i.e. obsession with the trade deficit). An anti-China trade policy that was accompanied by a magnanimous approach to trade relations with allies could have produced a “coalition of the willing” against Beijing. But after three and a half years of tariffs and threats against the EU, Japan, and Canada, the Trump administration has already signaled to the rest of the world that old alliances and coordination avenues are up for revision.

There are two outcomes that are expected to emerge over the course of the next decade:

- First, US leadership will become aware of the systemic constraints under which they operate, and trade with China will continue – albeit with limitations and variations, particularly in the tech space. However, such trade will not reduce the geopolitical tensions, nor will it prevent a military conflict. In fact, the probability of military conflict may increase even as trade between China and the US remains steady.
- Second, US leadership will fail to correctly assess that they operate in a multipolar world and will give up the highlighted trade gains from Diagram 2 to economic rivals such as Europe and Japan.

Given the methodological adherence to constraint-based forecasting, it is highly doubtful that the latter scenario is likely.

The China and the US conflict is not a replay of the Cold War.

Bottom Line: The China and the US conflict is not a replay of the Cold War. Systemic pressures from global multipolarity will force the US to continue to trade with China, with limitations on exchanges in emergent, dual-use technologies that China will nonetheless source from other technologically advanced countries. This will create a complicated but exciting world where geopolitics will cease to be seen as exogenous to macroeconomics and the markets.

A risk to the sanguine conclusion is that the historical record is applicable to today, but that the hour is late, not early. It is already 26 July, 1941 – when US abrogated all trade with Japan – not 1930. As such, we do not have another decade of trade between US and China remaining, we are at the end of the cycle.

While this is a risk, it is unlikely. American policymakers would essentially have to be willing to risk a military conflict with China – a nuclear power – in order to take the trade war to the same level they did with Japan. It is an objective fact that China has meaningfully stepped up aggressive foreign policy in the region. But unlike Japan in 1941, China has not outright invaded any countries over the past decade. As such, the willingness of the public to support such a conflict is unclear.

Implications

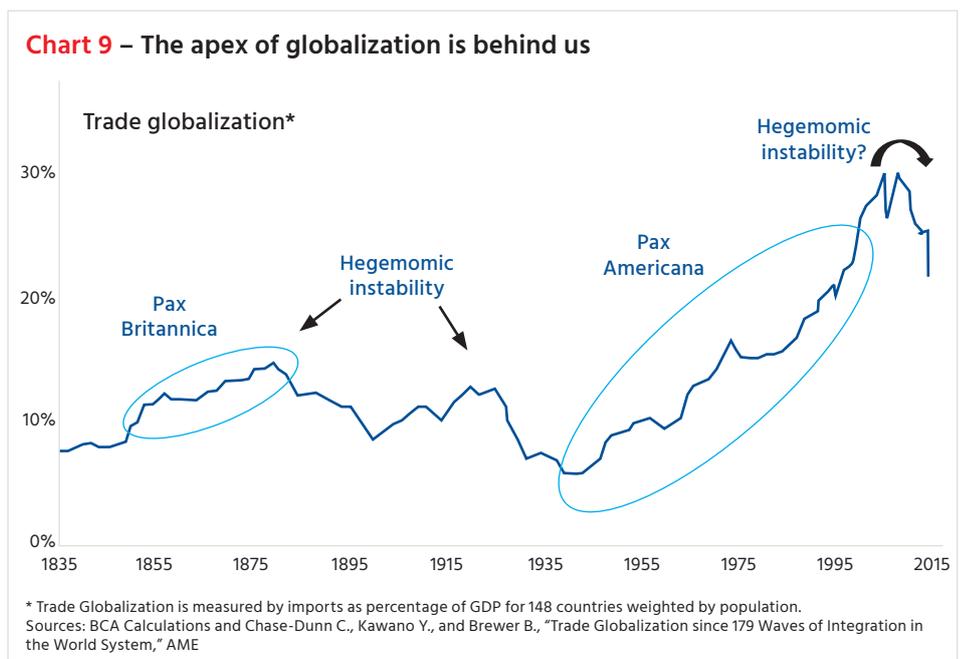
This analysis is not meant to be optimistic.

First, the US and China will continue to be rivals even if the economic relationship between them does not lead to global bifurcation. For one, China continues to be – much like Germany in the early twentieth century – concerned with access to external markets on which 19.5%¹⁴ of its economy still depends. China is therefore developing a modern navy and military not because it wants to dominate the rest of the world but because it wants to dominate its near abroad, much as the US wanted to and thus articulated its grand strategy via the Monroe Doctrine. This will continue to lead to Chinese ambition in South and East China Seas, raising the odds of a conflict with the US Navy.

Given that the Thucydides Trap narrative remains cogent, trade and capital flows may become interrupted by occasional conflict. Multipolarity may create constraints to trade protectionism, but it engenders geopolitical volatility.

Globalization requires a high level of coordination among great powers that is only possible under hegemonic conditions.

Second, another uptick in globalization is not expected. Multipolarity may make it difficult for countries to completely close off trade with a rival, but globalization is built on more than just trade between rivals. Globalization requires a high level of coordination among great powers that is only possible under hegemonic conditions. Chart 9 shows that the hegemony of the British and later American empires created a powerful tailwind for trade over the past two hundred years.



The apex of globalization has come and gone — it is all downhill from here. But this is not a binary view. Foreign trade will not go to zero. The US and China will not completely seal each other’s sphere of influence behind a Silicon Curtain.

Instead, five themes are identified that flow from a world that is characterized by the three trends of multipolarity, Sino-US geopolitical rivalry, and apex of globalisation:

With no hegemon to provide the global public goods of economic coordination, likeminded countries with shared interests – or common adversaries – will bind together in blocs to achieve economies of scale.

- “Economies of Scale” make a return: With no hegemon to provide the global public goods of economic coordination, likeminded countries with shared interests – or common adversaries – will bind together in blocs to achieve economies of scale. These groupings may be regional in nature – the EU – led by a regional hegemon – Russia’s Eurasian Union – or neither (think a potential revived “Commonwealth bloc” led by the UK, Australia, and Canada). A similar dynamic – catalyzed by the weakening of UK hegemony – spurred the late nineteenth century “Scramble for Africa” period of imperialism. While outright imperialism is not an option today (we think...), securing economies of scale – especially when it comes to foreign markets – will again become the name of the geopolitical game. Largely failed regional groupings such as ASEAN and Mercosur may see a new lease of life in this environment. Latin America, in particular, stands to benefit given that

it can achieve “economies of scale” with little effort, while being able to play both sides of the geopolitical conflict.

- European integration continues: As the US and China deepen their enmity, Europe is expected to benefit. Given the return of “economies of scale,” it is highly unlikely that any country seeks to exit European integrationist project in a de-globalized world. The UK Brexit is an unfortunate event, in this perspective, as it is a reaction to the preceding two decades of grievances under a globalized macro context. In other words, Brexit does make sense, but in 2000, not 2020.
- “Non-aligned” economies will benefit: The last time the world was multipolar, great powers competed through imperialism. This time around, a similar dynamic will develop as countries seek to replicate China’s “Belt and Road Initiative.” This is positive for frontier markets and economies. A rush to provide them with exports and services will increase supply and thus lower costs, providing otherwise forgotten economies with a boon of investments.
- Capital markets will remain globalized: With interest rates near zero in much of the developed world and the demographic burden putting an ever-greater pressure on pension plans to generate returns, the search for yield will continue to be a powerful drive that keeps capital markets globalized. Limitations are likely to grow, especially when it comes to cross-border private investments in dual-use technologies. But a complete bifurcation of capital markets is unlikely in a world starved for growth.
- USD bull market will end: A trade war is a very disruptive way to adjust one’s trade relationship. It opens one to retaliation and thus the kind of relative losses described in this analysis. As such, the US is expected to eventually depreciate the USD, either explicitly or implicitly. At the moment, the US is on the “frontier of unorthodoxy,” given its gargantuan fiscal and monetary response to the Covid-19 induced recession. This response will only grow in the future, encouraging capital flight away from the US and to the rest of the world.

Finally, a new global capex cycle will emerge due to emerging multipolarity. To secure global supply chains, major economies are expected to re-wire global manufacturing and to squirrel them away into acceptable “economies of scale” groupings. The bad news is that multinational corporations will have to dip into their profit margins to move their supply chains to adjust to the new geopolitical reality. The good news is that they will have to invest in manufacturing capex to accomplish the task.

The world we are describing is one where geopolitics will play an increasingly prominent role for global investors and corporations.

The world described in this paper is one where geopolitics will play an increasingly prominent role for global investors and corporations. It would be convenient if the world simply divided into two warring camps, leaving board rooms and investors with neatly separated compartments that enabled them to go back to ignoring geopolitics. This is unlikely. Rather, the world will resemble the dynamic years at the end of the nineteenth century, a rough-and-tumble era that required a multi-disciplinary approach to business and investing.

Footnotes

- ¹ This paper is an edited excerpt from my book, *Geopolitical Alpha* (Wiley, 2020). I thank Matt Gertken, of BCA Research, for his work editing the first draft of this paper, as well as my team at Clocktower Group for the research support.
- ² See German Historical Institute, “Bernhard von Bulow on Germany’s ‘Place in the Sun’” (1897), available at <http://germanhistorydocs.ghi-dc.org/>
- ³ See Graham Allison, *Destined For War: Can America and China Escape Thucydides’s Trap?* (New York: Houghton Mifflin Harcourt, 2017).
- ⁴ The three cases are Spain taking over from Portugal in the sixteenth century, the US taking over from the UK in the twentieth century, and Germany rising to regional hegemony in Europe in the twenty-first century.
- ⁵ Duncan Snidal, “Relative Gains and the Pattern of International Cooperation,” *The American Political Science Review*, 85:3 (September 1991), pp. 701-726.
- ⁶ We do not review Snidal’s excellent game theory formal modeling in this paper as it is complex and detailed. However, we highly encourage the intrigued reader to pursue the study on their own.
- ⁷ See Charles P. Kindleberger, *The World In Depression, 1929-1939* (Berkeley: University of California Press, 2013).
- ⁸ Joanne Gowa and Edward D. Mansfield, “Power Politics and International Trade,” *The American Political Science Review*, 87:2 (June 1993), pp. 408-420.
- ⁹ See Ernest Edwin Williams, *Made in Germany* (reprint, Ithaca: Cornell University Press), available at <https://archive.org/details/cu31924031247830>.
- ¹⁰ Quoted in Margaret MacMillan, *The War That Ended Peace* (Toronto: Allen Lane, 2014).
- ¹¹ Peter Liberman, “Trading with the Enemy: Security and Relative Economic Gains,” *international Security*, 21:1 (Summer 1996), pp. 147-175.
- ¹² Although France and Russia overcame even greater bitterness due to the ideological differences between a republic founded on a violent uprising against its aristocracy – France – and an aristocratic authoritarian regime – Russia.
- ¹³ See James Morrow, “When Do ‘Relative Gains’ Impede Trade?” *The Journal of Conflict Resolution*, 41:1 (February 1997), pp. 12-37; and Jack S. Levy and Katherine Barbieri, “Trading With the Enemy During Wartime,” *Security Studies*, 13:3 (December 2004), pp. 1-47
- ¹⁴ Source: World Bank: <https://data.worldbank.org/indicator/ne.exp.gnfs.zs..>

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Marko Papic is a Partner and Chief Strategist, Clocktower Group, an alternative investment asset management firm. He leads the firm's Strategy Team, providing bespoke research to clients and partners on geopolitics, macroeconomics, and markets. Previously, he founded BCA Research's Geopolitical Strategy practice, the financial industry's first dedicated political analysis investment strategy, which generated "geopolitical alpha" by identifying gaps between the market's political expectations and the firm's forecasts. Papic served as a senior vice president and the chief geopolitical strategist at the firm. He began his career as a senior analyst at Stratfor, a global intelligence agency where he contributed to the firm's global geopolitical strategy and its analyst recruitment and training program. In his academic work, Papic helped create the Center for European Union Studies at the University of Texas at Austin. He is the author of *Geopolitical Alpha: An Investment Framework for Predicting the Future*, a book that introduces the constraint-based framework to investors. He earned an MA in political science from the University of Texas at Austin and an MA from the University of British Columbia.



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