

Syria's Idlib Wins Welcome Reprieve with Russia-Turkey Deal



After weeks of escalatory rhetoric, Russia has partnered with Turkey in a deal to avert an all-out assault on Idlib, the last stronghold of Syria's armed rebellion. International actors seeking to end the Syrian war should embrace the agreement.

Turkish President Recep Tayyip Erdoğan and Russian President Vladimir Putin have unveiled an agreement to forestall a Syrian regime offensive in the country's north-western Idlib governorate. Per Putin and Erdoğan's announcement of the deal, signed following bilateral talks in Sochi, on Russia's Black Sea coast, by 15 October the two sides will establish a demilitarised zone along the line of contact between Idlib's rebels and regime forces. By 10 October, rebels' heavy weaponry must be withdrawn from the zone, which will also be cleared of what Putin called "Jabhat al-Nusra" (now Hei'at Tahrir al-Sham, or HTS) – who exactly will do the withdrawing

and clearing remains unclear. Russian and Turkish forces will patrol the zone. By year's end, Idlib's main highways will also be reopened to normal transit.

Crisis Group welcomes this announcement, which would appear to prevent a new deadly round of conflict with tremendous human cost. But implementing the agreement likely will be difficult, and its collapse cannot be ruled out. Turkey seems as if it may have to shoulder the heavy burden of partially disarming rebels inside the zone and emptying it of jihadists, a step those militants seem inclined to resist. Still, insofar as the deal avoids – at least for now – what could have been a truly shocking spectacle of violence and death, even by the standards of Syria's brutal civil war, the agreement warrants broad international support.

Idlib is the last major redoubt of Syria's armed rebellion. Its rebels include thousands of jihadist militants, among them HTS, the latest iteration of former Syrian al-Qaeda affiliate Jabhat al-Nusra. Yet Idlib and surrounding areas also hold nearly three million people, nearly all civilians, almost half of whom are internally displaced, including from elsewhere in Syria. If conflict consumes Idlib, most have no apparent refuge. Their only possible destinations would be the Turkish border, now closed, or Turkish-held areas to the north of Aleppo, which are already overcrowded. For its part, Turkey has also been determined to prevent a wave of displacement toward its border, which would likely include militants who could threaten Turkish and international security.



A refugee camp in Idlib from Crisis Group's illustrated commentary "Voices of Idlib".CRISISGROUP/Titwane

Since September 2017, Idlib has been covered by a "de-escalation" agreement announced jointly by Turkey, Russia and Iran in the Kazakh capital Astana. Under the terms of this agreement, Turkey deployed troops to twelve observation points along the front line separating rebel from regime forces

between October 2017 and May 2018. At this line they are tasked with monitoring the de-escalation and guaranteeing a ceasefire. These observation posts were subsequently matched by ten Russian and seven Iranian posts on the regime side of the line. Turkey also committed – alongside its co-guarantors – to dealing with Idlib's jihadists. It has worked to do so through nonviolent means, using political engagement and economic entanglement to separate what it characterises as more pragmatic Syrian fighters from a transnational jihadist hard core, who will have to be isolated and eventually eliminated.

Yet Turkey has been unable to bring a full halt to militants' provocations, including drone attacks on Russia's main Syrian air base of Hmeimim apparently launched from Idlib. Turkey has also made only limited progress in demobilising or neutralising Idlib's jihadists.

The agreement announced by Presidents Erdoğan and Putin was possible because, in theory, it meets the interests of the various protagonists. By forestalling a Syrian regime and Russian assault on Idlib, it averts the massive flow of refugees (including, inevitably, a number of jihadists) toward Turkey that Ankara had dreaded. It also has the potential to at least halt – or limit – cross-line attacks by militant groups, which, Russia claims, pose a destabilising threat to the de-escalation. In addition, and while Damascus was not present at the Sochi negotiating table, if the memorandum is implemented in full and Idlib's main highways are secured, it offers benefits to the Syrian regime by further reintegrating Syria economically as Damascus positions itself for post-war stabilisation and reconstruction.

Pressure, both direct and indirect, from Ankara and its allied European capitals likely played a part in producing the accord. They wisely communicated to Moscow that a gruesome battle for Idlib would have come at a price. It would have undermined Turkish-Russian bilateral relations and cooperation

on Russia's Syrian political initiatives, including a recent push for organised refugee return. European resistance to contributing to Syria's reconstruction without the start of a credible political transition would have hardened further in the face of mass atrocities. Turkey further demonstrated its commitment to preventing an offensive by sending reinforcements to its observation points, putting Turkish lives on the line for Idlib's ceasefire.

The agreement as outlined by Presidents Putin and Erdoğan roughly parallels the formulation advocated by Crisis Group earlier this month. But more important than the specifics of this compromise is the achievement of any compromise at all, which – by virtue of accommodating Turkey's bottom-line needs – necessarily means postponing a full-bore attack on Idlib and thus providing more time to fashion nonviolent solutions to the jihadist challenge.

That said, the success of this latest agreement remains a long shot. HTS personalities are already reacting angrily online, refusing to surrender their arms and autonomy. In addition to jihadist spoilers, Damascus may be dissatisfied with an international agreement that, in its view, keeps Syrian territory out of Syrian hands. The regime may seize on Idlib's jihadist presence as justification to attack, or initiate a confrontation in hopes of drawing in its Russian ally on its side. Whether Turkey will ultimately eliminate Idlib's jihadists and remove this pretext remains an open question.

Ultimately, this agreement may still prove only a temporary reprieve before a final confrontation in Idlib. Still, it represents at least some hope – however fleeting and fragile – of averting a genuine humanitarian catastrophe. International actors who seek to end the conflict in Syria should explore whether Russia's seeming reversal after weeks of escalatory rhetoric signals a new and broader shift by Moscow away from military solutions and toward more consensual negotiated

settlements for those parts of Syria still beyond Damascus's control.

Saudi Arabia's sovereign wealth fund: Borrowing money to make money?



Saudi Arabia's sovereign wealth fund (SWF), the Public Investment Fund (PIF), has taken an unusual approach to fund its investments: taking out an \$11 billion bank loan.

The PIF is the centerpiece of the Kingdom's Vision 2030 diversification plan. While the effort to list shares of the state oil company, Aramco, in an IPO has been all but

abandoned, new efforts to raise revenue for the fund have emerged. This is most recently reflected in the decision to sell the PIF's share in the state petro-chemical firm SABIC to the state-owned oil company Aramco, which would put about \$70 billion in the PIF's hands to invest abroad. As I've written recently, feeding the PIF has become a national economic priority.

Saudi Arabia's Crown Prince Mohammed bin Salman attends during the 29th Arab Summit in Dhahran, Saudi Arabia April 15, 2018. Bandar Algaloud/Courtesy of Saudi Royal Court/Handout via REUTERS

The PIF is now a stark departure from traditional Gulf sovereign wealth funds. It's more like a private equity fund. The problem is that its investors, or owners, did not sign on for risk or additional debt. That's if you think of Saudi citizens as its owners.

SWFs across the Gulf Cooperation Council, with the exception of the Kuwait Investment Authority, are relatively new. Most were created in the early 2000s, when oil wealth created surplus revenue that could be placed abroad to grow. These SWFs were used to signal prestige acquisitions in Western brands, from high end retail and banks to auto manufacturers. Other SWFs focused on domestic development and placing state funds in new sectors like renewable energy, which helped the states economically diversify from oil-based economies. All of the SFWs, however, have the purpose of safeguarding and growing national wealth, like an intergenerational savings account or a collective nest egg.

Not all sovereign funds are based on natural resource wealth, but in the Gulf states they are exclusively the product of oil and gas revenues. Foreign reserve assets, or traditional reserves in the Gulf, are also products of oil and gas sales abroad. But these funds may be managed more conservatively and are generally like cash savings, meant to stay liquid and

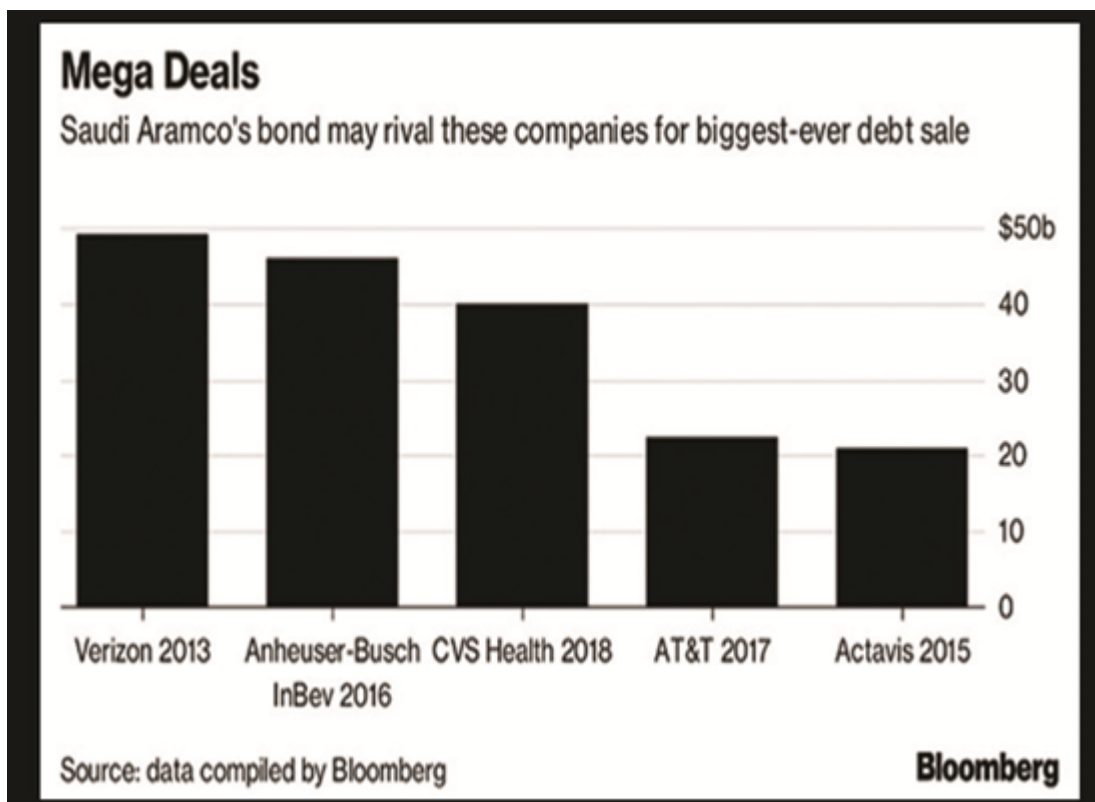
easily transferrable.

The Saudi government's management of the PIF demonstrates how leadership perceives a time horizon for meeting development goals. A willingness to borrow signals the SWF is more of an active investment fund, or a hedge fund, rather than a safe deposit of shared wealth. A higher risk tolerance in investments of the sovereign wealth fund can indicate a state's perception of threats to its domestic legitimacy – perform and deliver now, or risk unrest and an unsatisfied population at home.

The shift in Saudi Arabia from the conservative Saudi Arabian Monetary Authority to the new PIF is a repurposing of existing institutions to create a system of new state organizations. This is the Crown Prince's parallel Saudi state, with its own agenda for economic growth and a very strong hand against internal dissent and alternative ideas about the appropriate role of private enterprise. The other characteristic of the new PIF is its accelerated pace of investments and expansion of the institution itself. The horizon for growth is short. The imperative is to demonstrate quick returns and opportunities for citizens now. The long-term growth horizon is hazy.

For the citizens of Saudi Arabia, the benefits are meant to satiate immediate needs for job growth, and to show demonstrable signs of diversification. This means new entertainment venues, theme parks, and the infrastructure of a changed society and service economy. Whether these investments provide long-term productivity growth or steady returns on investment become secondary priorities. Because the Crown Prince is concerned with a young constituency, his directives to the PIF are largely short-term in scope and equally high risk. He wants results (and returns) now – what remains of the PIF in twenty or thirty years is less of a public policy priority.

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Saudi financial engineers are cooking up a plan to raise as much as \$70bn for the Public Investment Fund by having state oil giant Aramco buy PIF's entire stake in sister company Sabc. That could include a bond sale the likes of which the world has never seen.

Problem is, this year's selloff in emerging markets has sent borrowing costs surging and new debt issuance has dried up, with offerings down 14% from last year.

And yet Crown Prince Mohammed bin Salman needs to flood PIF with cash so it can accelerate a buying spree that's seen it snap up stakes in Tesla Inc and Uber Technologies Inc since 2016. His vision is that by 2030, PIF will control \$2tn in assets just as oil's dominance worldwide starts waning.

Since shelving plans in July to sell 5% of oil giant Aramco to the public, the prince has shifted gears and now wants to keep ownership in the kingdom's hands with the Sabic deal. As Aramco met bankers in London last week to figure out how to pay for the acquisition, the question on everyone's mind is: Can the Saudis pull it off?

1) How much could Aramco feasibly raise in the bond market?

Aramco's issuance could conceivably be the biggest corporate bond sale if it surpasses the \$49bn Verizon Communications Inc raised in 2013 to buy a stake in Verizon Wireless Inc. Bond brokers are divided on how much appetite there will be. Some say Aramco won't be able to raise more than \$10bn at the price it wants; others think it can pull off \$50bn or even \$70bn.

That may be ambitious. One person with direct knowledge of the financing talks said Aramco is likely to arrange a short-term bridge loan with a group of banks of potentially \$40bn. Bankers would then aim to raise at least part of that amount in the bond market.

To be sure, Saudi Arabia isn't afraid to go big. Since Prince Mohammed first unveiled a plan to transform the kingdom's economy in 2016, the sovereign has raised upwards of \$50bn on international bond markets, including the biggest-ever EM sale of \$17.5bn that year.

2) Can the market absorb a mega Saudi bond?

Markets are in a different place now than they were in 2016. It's not as compelling for investors hunting for yield to venture into emerging markets when US interest rates are on

the rise. Add to that concerns that major developing economies are either facing slowing growth or entering recessions, and the argument in favor of taking on EM risk has fallen apart.

“It’ll be a big stretch on the market, if they want to do more than \$20bn by year-end,” said Pavel Mamai, the co-founder of hedge fund Promeritum Investment in London.

3) Who is likely to buy the Aramco bond?

Given that Saudi Arabia is an investment-grade issuer, some of the world’s biggest sovereign wealth funds are likely to back the Aramco offering nonetheless. This is especially true because the notes are likely to be eligible for inclusion in the JPMorgan Emerging Market Bond Index tracked by \$360bn of investors. That said, since Aramco may be deemed a quasi-sovereign issuer, loading up on this much debt could prompt ratings companies to reconsider their grades. Since 2016, the three major ratings firms have knocked down Saudi Arabia’s at least one notch.

4) Why might traditional emerging-market investors hesitate?

Demand could be capped because investors have plenty of options in EM. The yield on Saudi Arabia’s \$5.5bn of 10-year debt sold in 2016 is now at 4.14% – almost two percentage points less than the average for sovereign Eurobonds on the Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index.

Buyers are better off in places like Argentina, Russia and Turkey – where 10-year debt yields as high as 10%, according to Lutz Roehmeyer, chief investment officer at Capitulum Asset Management in Berlin. “So many bonds get completely destroyed in the recent selloff that you can pick up now so many cheap bonds that high grade issuer will face little crossover inflows.”

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True, Saudi Arabia offers investors seeking stability a place

to park their cash. The sovereign holds an A1 rating at Moody's Investors Service, the fifth-highest investment grade. Oil prices are up 18% this year and the Saudi central bank has almost \$500bn in foreign assets.

Aramco isn't rated though, and investors may not be keen to hold long-term debt in a pure oil play when oil demand is forecast to increasingly be replaced by renewable energy. There was also a broad selloff in investment-grade debt in the past year, with companies like Apple Inc offering 3.57% yields on notes due in 2026.

Saudi Arabia will have to give a competitive first-issuer premium to woo this segment of buyers. Angad Rajpal, a senior fund manager at Emirates NBD Asset Management, said anywhere from 25 basis points to 40 basis points above equivalent-maturity Saudi sovereign debt would do the trick.

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If Aramco can pull off a mega bond sale, it could mean a fee bonanza for bankers reeling from the cancellation of the IPO, according to Jeff Nassof, a director at Freeman & Co in New York. If it can raise \$70bn of bonds to fully fund the Sabic purchase at a fee rate of 0.1%, for instance, banks could get a \$70mn windfall, the largest underwriting fee ever paid in the Middle East.

But that's a big if. Whatever Aramco can't raise in bonds it will presumably need to borrow in loans, which means more Saudi risk on bank balance sheets. Lenders have already extended tens of billions of dollars in loans to help the kingdom weather the downturn in oil since 2014.

China sets tariff on US LNG just as exports ramp up



China has set a 10% tariff on imports of US liquefied natural gas just as trade of the super-chilled fuel between the two nations started to ramp up and exports from new terminals on the US Gulf Coast are poised to begin. Beijing announced yesterday it would tax thousands of US products worth \$60bn in retaliation for tariffs imposed by US President Donald Trump as the trade war between them escalated. China became the world's second-largest importer of LNG last year, behind Japan and ahead of South Korea, driven by a push to convert to cleaner gas from coal generation energy. At the same time, the United States is poised to become a major exporter with the majority of LNG supply growth in coming years from new terminals being planned or built now.

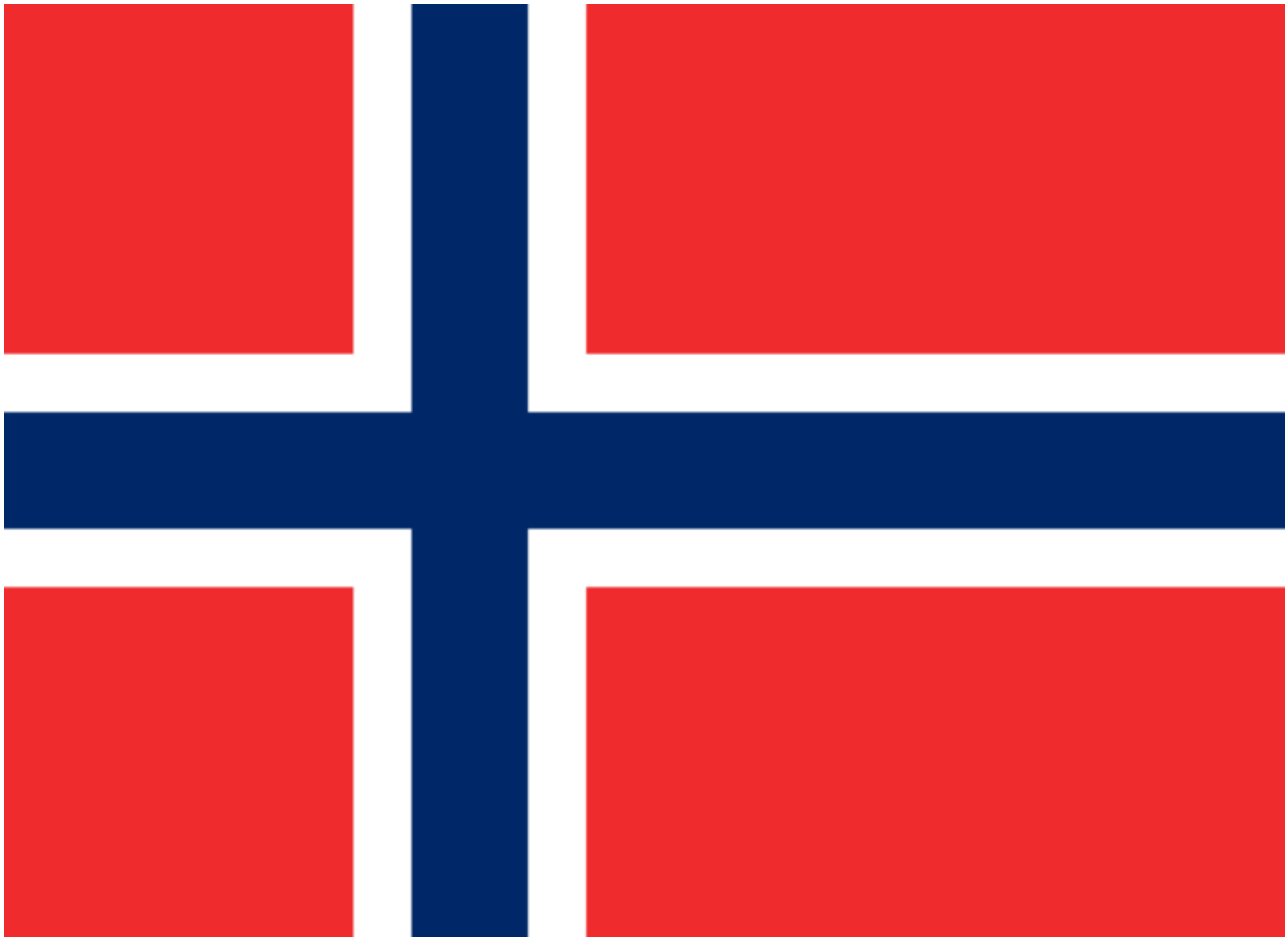
China imported 1.6mn tonnes of the 14.9mn tonnes of LNG that has been exported from the United States so far this year, according to Thomson Reuters data. Analysts and traders have said that although China is a huge buyer of LNG especially in the run-up to and during winter, it should easily find supplies from other large exporters such as Qatar and Australia. State-owned Qatargas said this month it had signed a 22-year deal to supply a unit of PetroChina with 3.4mn tonnes a year.

For US companies developing LNG export terminals such as Cheniere Energy, Sempra and Kinder Morgan, the tariff casts doubt over their projects' final investment decisions (FIDs), which trigger construction of facilities. "It's a problem for Cheniere as it makes their LNG uncompetitive in China," Noel Tomnay, vice president for gas and LNG consulting at Wood Mackenzie, told Reuters on the sidelines of an industry event in Barcelona, Spain. "But the biggest problem is for all those

US LNG projects trying to get FID. China would be the biggest market for all of them. While these tariffs last, it's unlikely they can take off.

That's a potential opportunity for non-US projects (e.g. Canada) to go ahead." Four new US terminals and one extension will come onstream in stages over the next two years. Once they run at capacity, they will constitute 60% of all new supplies expected to be added to the global market by 2023. Aside from that, there are dozens of new trains, or facilities, planned at existing or new terminals, which all need FIDs before they progress.

The \$20bn race to eclipse Norway's elite oil producers



The race is on to become Norway's biggest non-state oil company. As super majors such as Exxon Mobil Corp and BP Plc focus on other regions, a new group of smaller companies is revitalising the country's oil industry. They are buying up reserves and pumping money into new and existing fields, setting a course to surpass bigger rivals and become Norway's largest producers after state-controlled Equinor ASA and Petoro AS.

Here are the contenders for the No 3 spot: Aker BP ASA: The result of a merger in 2016 between an independent Norwegian oil company and BP's local unit. It is investing \$1.3bn this year and plans to double production to 330,000 barrels of oil equivalent a day in 2023. It could exceed that goal even without more transactions, its chief executive officer said on Thursday. Var Energi AS: The product of the merger between Norway's private-equity-backed Point Resources AS, which bought Exxon-operated oil fields in the country, and Eni SpA's local unit. It plans to invest \$8bn over five years to reach

250,000 barrels a day of output in 2023, from 170,000 barrels last year. Wintershall DEA: The planned combination of German oil companies Wintershall AG and Deutsche Erdoel AG.

The two anticipate at least €2bn (\$2.3bn) of investments each in Norway from 2017 to 2021. The merged entity's production could reach 200,000 barrels a day in the "near future." If Aker BP maintains current spending levels, these companies could invest \$20bn or more in the five years to 2022 – the equivalent of a year's investment by all oil companies in Norway. The race among the companies will propel at least one of the three past Total SA, Norway's third-biggest producer last year with 214,000 barrels a day. That's even with the additional output Total will get from the giant Johan Sverdrup project. The scramble could turn out to be a boon for Norway, western Europe's biggest oil and gas producer but facing a dearth of big projects by the beginning of the next decade.

Aker BP, in which BP retains a 30% stake, isn't about to let rivals surpass it. "Absolutely not," CEO Karl Johnny Hersvik said in an interview during the ONS Conference in Stavanger last month. "We actually think this is fun. Because there's nothing that creates more innovation than competition."

Having acquired the Exxon fields, and encouraged by new owners HitecVision AS, there's increased activity at Point Resources, with engineers working out how to boost output, said Kristin Kragseth, vice-president for production. She doesn't "spend much time on the competition aspect," said the former Exxon executive who is also the incoming CEO of Var Energi. "We have very concrete plans to grow," Kragseth said in an interview at ONS in Stavanger. "If that makes us one of the biggest producers, great."

Millions of EV charging points planned for US, Europe by 2025



Two electric car charging companies are announcing plans to build 3.5mn plug-in spots in the US and Europe by 2025 in an effort to accelerate the adoption of clean vehicles, according to Bloomberg. California-based ChargePoint Inc will deliver 2.5mn places to charge and EVBox will install 1mn new fast and regular chargers, according to a statement on Friday by The Climate Group, which helps develop zero-emission programmes. The new charging stations will support 37mn electric vehicles that are forecast to be on the road globally by 2025, driving a combined 384bn electric miles per year. The announcement was made during the Global Climate Action Summit in San Francisco.

Shale drilling expands far from Permian pipeline pinch



Shale explorers added the most oil rigs in a month last week, even as pipeline bottlenecks depress prices in America's busiest basin while growth migrates to other plays. Working oil rigs rose by 7 to 867, according to data released on Friday by oilfield service provider Baker Hughes. That was the biggest increase since the weekend ended August 10.

Still, the count has mostly plateaued since late May, after a ramp-up that more than doubled the number from little more than 300 in mid-2016. A pipeline bottleneck in the Permian Basin of West Texas and New Mexico is restricting frack work there and forcing the region's exploration and production companies to sell their crude at a large discount to the West Texas Intermediate benchmark. But the crunch is encouraging drilling in other areas.

"E&Ps will start drilling again to adjust to bottlenecks," Bloomberg Intelligence analyst Mark Rossano said on September

10. “While some work picks up again, a majority will be pushed into 2019 to match new pipeline capacity.” Though the number of active rigs fell in the Permian, by one to 483, two were added in the Denver-Julesburg Niobrara play in Colorado and another was activated in the Bakken of North Dakota.

Ministry observes World Ozone Day



Qatar, represented by the Ministry of Municipality and Environment, celebrated International Day for the Preservation of the Ozone Layer, which falls on September 16, and aims at urging global efforts to preserve the ozone layer and its vital role on planet Earth.

As part of this year’s celebration, which held under the slogan “Keep Cool and Carry On”, a United Nations Environment Programme (UNEP) delegation visited the ministry yesterday, as an expression of the great efforts and outstanding level

achieved by Qatar in its obligations to implement the Montreal Protocol on Substances that Deplete the Ozone Layer, 31 years after the protocol was announced in Montreal.

On January 22, 1996, Qatar acceded to the 1985 Vienna Convention on the Preservation of the Ozone Layer, the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer and the London and Copenhagen Amendments. On January 29, 2009, Qatar ratified the Montreal and Beijing amendments to the Montreal Protocol.

Dr Aisha Ahmed al-Baker, director, radiation and chemicals protection department at the Ministry of Municipality and Environment, the body responsible for following up the implementation of the UN multilateral conventions on the protection of the ozone layer, said Qatar made achievements in several axes in this regard, adding that the multilateral fund of the protocol has approved several projects of the Qatar.

Al-Baker reviewed the projects and achievements in the issuance of a number of legislations and laws to implement several agreements.

She pointed out that in the framework of Qatar's commitment to protecting the ozone layer, it issued Law No (21) of 2007 on the control of substances that deplete the ozone layer was recently updated by Law No (19) of 2015 on the issuance of the common system on substances that deplete the ozone layer for the GCC countries.

She added that the law aims to regulate the import, re-export, transfer, and storage of devices, equipment, and products that have been monitored and complete disposal of these substances and to be replaced with safe alternatives.

She added that the State party regularly reported to the Secretariat of the Convention and the Multilateral Fund Secretariat on the total and sectoral consumption of each substance.

"The ministry co-operated with State bodies concerned with monitoring imports and exports of hydro chlorofluorocarbons (HCFCs) ozone-depleting substances, as well as monitoring

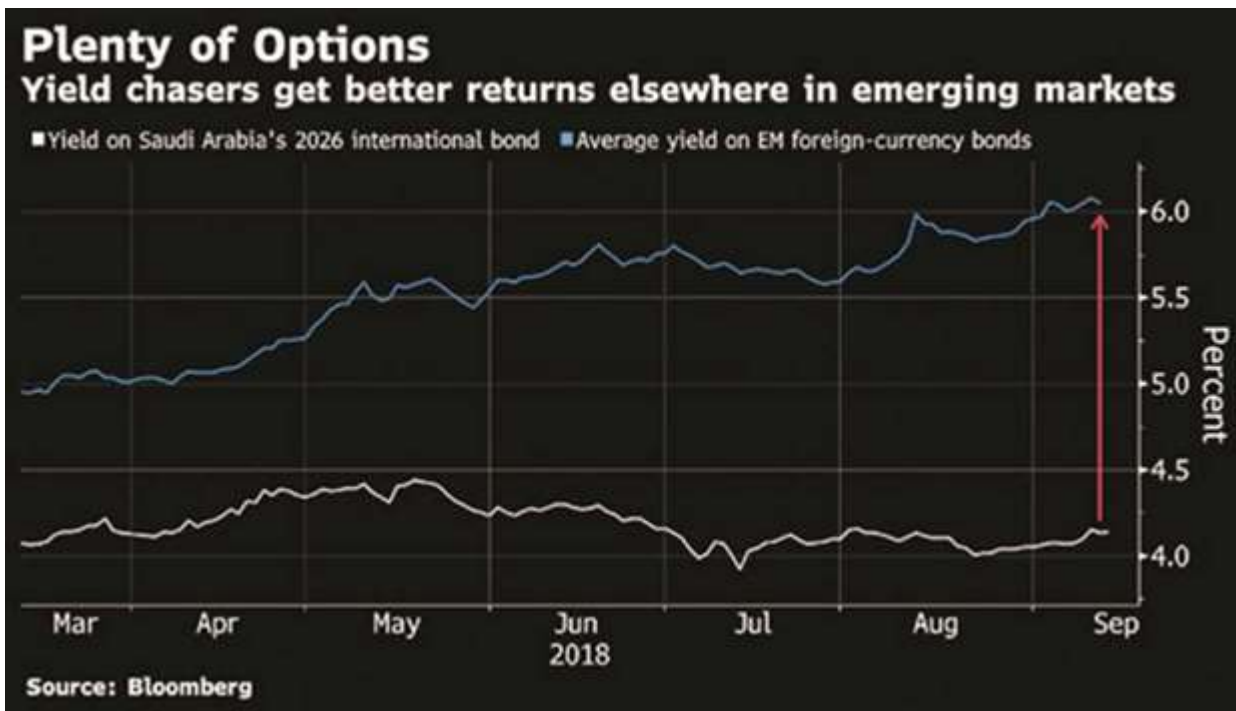
their illegal trade practices, tighten market controls, and hold training programs for various stakeholders.

With regards to plans, she said a national strategy has been put in place to deal with the mentioned hydrochlorofluorocarbons (HCFCs) which runs till 2030. "Qatar's consumption to these materials includes two main sectors: industry of insulating materials (foam) and the refrigeration and air-conditioning services industry."

Hussein al-Kibisi, manager, department of environmental observation said the ministry has implemented Article No 3 of Law No 19 of 2015, setting standards, registration and quota system for importing companies for these controlled substances.

Al-Kibisi said Qatar started preparing to implement the Kigali Amendment by requesting from the Multilateral Fund to finance a project for enabling activities to push the validation process into the Kigali Amendment, through a number of survey, legal and technical programs which reviews the implications of the state's commitment to the amendment and its impact on different sectors. (QNA)

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Bloomberg Brussels

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The Global Economy's Fundamental Weakness



Sep 13, 2018 RICHARD KOZUL-WRIGHT

Over the course of the past decade, the global economy has recovered from the 2008 financial crisis by riding a wave of debt and liquidity injections from the major central banks. Yet in the absence of steady wage growth and productive investments in the real economy, the only direction left to go is down.

GENEVA – When Lehman Brothers declared bankruptcy ten years ago, it suddenly became unclear who owed what to whom, who couldn't pay their debts, and who would go down next. The result was that interbank credit markets froze, Wall Street panicked, and businesses went under, not just in the United States but around the world. With politicians struggling to respond to the crisis, economic pundits were left wondering whether the “Great Moderation” of low business-cycle volatility since the 1980s was turning into another Great Depression.

In hindsight, the complacency in the run-up to the crisis was clearly unconscionable. And yet little has changed in its aftermath. To be sure, we are told that the financial system is simpler, safer, and fairer. But the banks that benefited from public money are now bigger than ever; opaque financial instruments are once again de rigueur; and bankers' bonus

pools are overflowing. At the same time, un- or under-regulated “shadow banking” has grown into a \$160 trillion business. That is twice the size of the global economy.

Thanks to the trillions of dollars of liquidity that major central banks have pumped in to the global economy over the past decade, asset markets have rebounded, company mergers have gone into overdrive, and stock buybacks have become a benchmark of managerial acumen. By contrast, the real economy has spluttered along through ephemeral bouts of optimism and intermittent talk of downside risks. And while policymakers tell themselves that high stock prices and exports will boost average incomes, the fact is that most of the gains have already been captured by those at the very top of the pyramid.

These trends point to an even larger danger: a loss of trust in the system. Adam Smith recognized long ago that perceptions of rigging will eventually undermine the legitimacy of any rules-based system. The sense that those who caused the crisis not only got away with it, but also profited from it has been a growing source of discontent since 2008, weakening public trust in the political institutions that bind citizens, communities, and countries together.

During the synchronized global upswing last year, many in the economic establishment spoke too soon when they began to forecast sunnier times. With the exception of the US, recent growth estimates have fallen short of previous projections, and some economies have even slowed. While China and India remain on track, the number of emerging economies under financial stress has increased. As the major central banks talk up monetary-policy normalization, the threats of capital flight and currency depreciation are keeping these countries’ policymakers up at night.

The main problem is not just that growth is tepid, but that it is driven largely by debt. By early 2018, the volume of global debt had risen to nearly \$250 trillion – three times higher than annual global output – from \$142 trillion a decade

earlier. Emerging markets' share of the global debt stock rose from 7% in 2007 to 26% in 2017, and credit to non-financial corporations in these countries increased from 56% of GDP in 2008 to 105% in 2017.

Moreover, the negative consequences of tightening monetary conditions in developed countries will likely become more severe, given the disconnect between asset bubbles and recoveries in the real economy. While stock markets are booming, wages have remained stuck. And despite the post-crisis debt expansion, the ratio of investment-to-GDP has been falling in the advanced economies and plateauing in most developing countries.

There is a very big "known unknown" hanging over this fragile state of affairs. US President Donald Trump's trade war will neither reduce America's trade deficit nor turn back the technological clock on China. What it will do is fuel global uncertainty if tit-for-tat responses escalate. Even worse, this is occurring just when confidence in the global economy is beginning to falter. For those countries that are already threatened by heightened financial instability, the collateral damage from a disruption to the global trading system would be significant and unavoidable.

Yet, contrary to conventional wisdom, this is not the beginning of the end of the postwar liberal order. After all, the unraveling of that order started long ago, with the rise of footloose capital, the abandonment of full employment as a policy goal, the delinking of wages from productivity, and the intertwining of corporate and political power. In this context, trade wars are best understood as a symptom of unhealthy hyper-globalization.

By the same token, emerging economies are not the problem. China's determination to assert its right to economic development has been greeted with a sense of disquiet, if not outright hostility, in many Western capitals. But China has

drawn from the same standard playbook that developed countries used when they climbed the economic ladder.

In fact, China's success is exactly what was envisioned at the 1947 United Nations Conference on Trade and Employment in Havana, where the international community laid the groundwork for what would become the global trading system. The difference in discourse between then and now attests to how far the current multilateral order has moved from its original aims.

At first, the Lehman crisis did trigger a revival of the post-war multilateral spirit; but it proved fleeting. The tragedy of our times is that just when bolder cooperation is needed to address the inequities of hyper-globalization, the drums of "free trade" have drowned out the voices of those calling for a restoration of trust, fairness, and justice in the system. Without trust, there can be no cooperation.

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