



Zanetti Monday Missive 2023.09.04

Geography is History

**“Geography is history.”
~ Old German saying**

Hello Everyone,

I quoted that once to an intern working for me during summer break. He scoffed, “No it isn’t! That’s ridiculous. History is history.” Taken literally, he’s right of course. But I think he missed the nuance of the saying.

Therefore, seeking nuance, the ambitious goal of our modest missive today is to explore the role of geography in creating empires in the past, its role in the BRICS alliance, and finally, its influence on your investments.

That is a lot of territory to cover --especially for a holiday missive. So, let's get to it.

Historically, empires generally fall into one of two categories. Either you are a land power or a sea power. Rarely are empires both.

For example, the Egyptians, Chinese, Mongols, Persians, Mayans, Aztecs, Mughals of the Indian Sub-continent, Romans, Ottomans, and Soviets were all land powers.

Meanwhile, the Phoenicians, Greeks, Romans, Vikings, Spanish, Dutch, Portuguese, Japanese, British, and Americans can all be classified as maritime powers.

(Note the Romans were the rare exception---they held power in both categories. Maybe that is why their empire lasted so long.)

Anyway, over the past 300-400 years, the sea powers of Spain, Britain and America have held sway over the rest of the world.

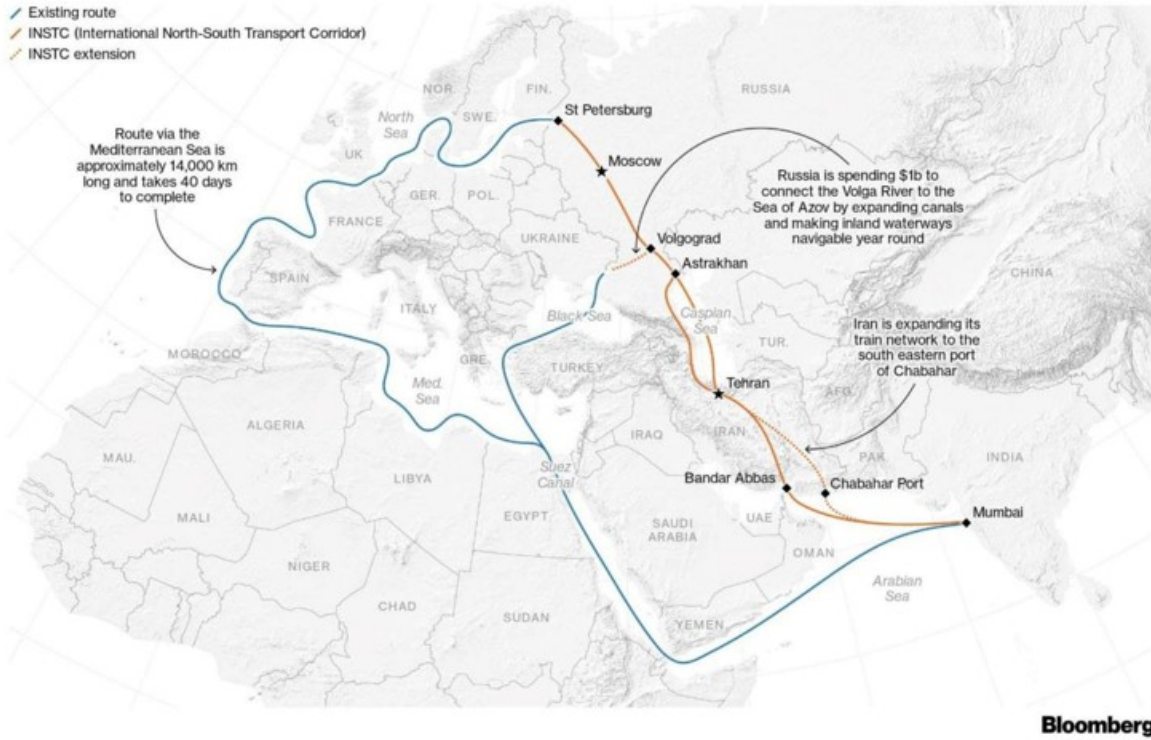
But now the ancient land powers want their empires back.

This was the impetus behind Putin's "New Silk Road" initiative, which he articulated about 20 years ago. China's Xi signed on in 2013. And this is what BRICS is all about today.

To see how Putin views it, just look at the map below.

Trade Routes From Russia to Asia

New routes via Iran will save thousands of kilometers



The blue line shows how Russia has been beholden to sea powers.

Much of Putin's exports must travel west through Europe to the Atlantic. Then, they move down the coast (past Gibraltar) into the Mediterranean.

Then, for direction south and east, trade runs through the Suez Canal eventually to India and the Global South. The choke points in the North Sea, Gibraltar, and Suez are all under the influence of the West.

That wasn't very comfortable for Mr. Putin. So, let's look at what he has implemented.

If you follow the brown line on the map, you will see a sequence of events:

- First, the Russians set about expanding the Volga River's transit capabilities. An expanded inland waterway to transit goods south.
- Then, Putin pressed to unite the Slavic states in the heart of the continent.
- Then the Russians signed cooperation and defense(!) agreements with Iran and Saudi Arabia (both new BRICS nations)
- Then, just two weeks ago, they added Egypt and Ethiopia to BRICS. Those two countries can ensure (or not ensure) safe transit through the Suez Canal and Red Sea. Egypt is at the north end and Ethiopia at the south.
- So, on the map above, the blue line from the Black Sea to the end of the Suez Canal should now be brown--- in my opinion.

Thus, Russia has succeeded in shrinking its trade routes by thousands of miles. And, more importantly, Putin effectively nullified the West's choke points across the Eurasian continent.

So, if I were Putin, what would I do next?

- Win the Ukraine war and secure the city of Odessa in the process. This would make Ukraine a landlocked rump state; and Russia would control the significant Black Sea ports.
- Next, pull Turkey (the old Ottoman Empire) away from NATO and get Erdogan to see that "the future lies with a Eurasian land power."
- This would nullify the bottleneck of the Bosphorus Straights that lead from the Black Sea to the Aegean Sea to the Mediterranean.

- BTW, this is the same bottleneck where ancient Troy was located. If you control that narrow channel of water between the Aegean and Black Seas you control Central Asian trade. Trojans? Greeks? Russians? Turks? Not much changes.
- Look at the map below. Find Odessa, Istanbul, and Athens and Putin's next steps seem obvious...



- Next, isolate Israel...America's strongest ally in the Middle East. Walt referenced this in last week's missive. Keep Israel off balance and US influence in the region becomes negligible.
- Next, expand BRICS quickly to the west. ("Hello almost-landlocked Germany. This is Vlad in Russia. Do you want to join BRICS? We have lots of low-cost energy you need. Let's let bygones be bygones.")
- Simultaneously, expand east (with China's help) all the way to Indonesia and the Philippines.

So, what does this mean to you and your investments?

- First, recognize the war in Ukraine is part of much bigger puzzle. And NATO is losing.
- Once Russian prevails, a multi-polar world will be in full view. The US will remain an important nation, but no longer dominate as before.
- Europe will suffer the most financially and geopolitically. The decline of the Euro (and European banks) will be the bellwether to watch for.
- The dollar will initially strengthen (as Europe weakens). Eventually, however, the dollar will be forced to bend to the new reality as well.
- The Fed Chair, Jerome Powell, must defend the dollar. Thus, the Federal Reserve will be forced to keep interest rates “higher for longer.”
- That means he may have to sacrifice the stock, bond, and real estate markets to defend the currency. And yes, an eventual Central Bank Digital Currency is a new tool in his tool box.
- These disruptions mean the chances of war will escalate. War is both energy and commodity intensive. War is also inflationary.
- Commodity supply lines (think energy first) will change dramatically. The US will be forced to recalibrate (and reembrace) fossil fuel production and natural resource exploration and mining.
- We will also return manufacturing industries to our shores.
- But it will take years to compensate for past short-sighted policies.

That's enough Labor Day reading. :->) We are living on the cusp of multi-generational change. Our job at Zanetti Financial is to guide our clients through this in the most

profitable way possible.

Signed, Your Let-Me-Know-When-The-Next-Covid-Variant-Is-Serious-Enough-To-Secure-The-Southern-Border Financial Advisor, Greg

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