



Dr. Pippa Malmgren: Social Media Data Mining is the new Geopolitical Frontier

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Erik: Joining me next on the program is [Dr. Pippa Malmgren](#), the founder of [DRPM Group](#) and the author of a new book, which won't be out until October. We'll get to that later in the interview.

Pippa, I want to start with the trade wars. China. Obviously, you are well-known as a geopolitical analyst, having served as an advisor to several US presidents. So tell us about your perspective.

Is Donald Trump bluffing with [President] Xi about this trade war stuff? Is this all part of the "art of the deal" stuff? Are we really at the risk that appears to exist of a major trade war breaking out that could cause, as some people think, a meltdown in the stock market?

What's the real story here? And what are the various actors up to? What's their real intention?

Pippa: I am very lucky at this time – I have a bit of a frontline view because of my role advising the British government on trade policy right now. But I have spent my whole career in trade. And what we're seeing now is something so profoundly different from anything we've ever seen before you can't even put it into context. You just have to understand it on its own terms.

So the first thing is, yes, it's a very much an "art of the deal" situation. And the way Xi Jinping sees it is Trump is the first President ever who is willing to give away territory in exchange for what he wants.

That's what he did with Ukraine and Syria. He said to the Russians, it's complicated, we're not interested in that part of the world, and if you would give us some other stuff then we'll let you have that. And that's exactly what happened.

So Xi is going, wow, this may be a once-in-a-lifetime opportunity to get North Korea to effectively – and I'll use a bold term – soft annex it in the same way that the Russians soft annexed Ukraine.

So the question is, What does Xi want? What does Trump want?

What Trump wants is to remove the whole nuclear threat. And, to be fair, we want the Nobel Prize to be awarded to somebody, but it won't be to him. It will be to the North and the South Korean leaders. Nonetheless, this is only possible because of his changed stance.

And what does Xi want? Xi wants to have North Korea much more under his control and all the strategic value that brings. Not to mention the commercial value, because North Korea is a big mining location.

And it has a very, very important port location that is critical to China at a time they're building out their so-called [Belt and Road](#), which is this global infrastructure of connectivity that connects China with the rest of the world by railways, by ports, by bridges, by highways, etc., and through digital infrastructure.

So both sides are throwing everything onto the table. Both sides are saying, well, I have a gripe about this. And the other guy goes, well, this other issue is bugging me.

So the Chinese are putting the South China Sea and saying, okay, we'll sort the North Korea nuclear issue if you give us North Korea and you let us have South China Sea without any more complaining.

And Trump is saying, okay, you fix North Korea. But, by the way, could you invest some of that capital from the Belt and Road in the United States as well? And could you please do something about the fact that your trade deficit issue with us is so severe?

So they're kind of throwing things back and forth at each other. The more recent thing is Xi saying, Chinese firms have been locked out of the US market because of your ban on technology transfer. Could you please lift that? And Trump saying, well, I'm not going to lift that unless you do this other stuff first.

It's very confusing for people who are from the world of foreign policy, because what they're used to is the State Department negotiating this kind of thing. That's how it's always been done on North Korea before. This time, both sides are lifting it way above the level of their diplomats and doing it directly. And I can't emphasize strongly enough: *directly*.

People haven't clocked the US ambassador to China is Governor Branstad. Now, why is Governor Branstad important? Because when Xi Jinping went to the United States to learn English and to learn about American farming and agriculture, who became his closest personal friend? Governor Branstad. Who is the back channel in Washington that talks to the Chinese ambassador? Ivanka Trump.

You have to remember, the Chinese love this. Because this is how they are used to doing business. They always did business through friends and family. They're, like, forget the diplomats, the official civil service. We go way over that in China. Same thing here.

So they kind of like the way Trump is doing this. And, as a result, it's very difficult for all of us general observers to see what's happening. It's almost like Wimbledon happening with no cameras. And the only people who can see what's going on are the ones that are actually on

courtside.

This means it's very difficult for outsiders to really comprehend what's happening.

But I think the end result is going to be this: They will reach a deal. Probably North Korea will end up much more in Chinese control than ever before. The US will claim victory because the North Korean nuclear issue will be diminished.

The North Koreans will actually be, for the first time, in a position to generate foreign direct investment into North Korea. And they're already reaching out to create international consortia of investors, because they're afraid of the Chinese owning everything. So, suddenly, North Korea will genuinely open up. And you'll see mining and the port all become frontline issues in the markets.

And the bottom line is this geopolitical threat that everybody was so worried about will actually get resolved. But the price will be they had to throw a lot of sand and grit in the gears of the world economy by hurling around threats of trade actions. I'm not saying there's no residue from those threats. But I am saying they're all betting it's worth it to get to this much bigger goal.

Erik: If what you're saying is true, and I suspect that it is because, certainly, my perception of this has been that Trump, when he says trade wars are a good thing that are easy to win, I don't think he's so naive as to believe that. I think he knows that taking a very outspoken stance like that is part of his style of negotiating, and it's part of a dance that they're doing.

Now, if we are right about that, it seems to me that it really sets up what could be a really big rally in the stock market when this gets resolved. Because a lot of people are taking these things literally. They fear that, when Donald Trump says trade wars are a good thing and are easy to win, he actually believes that. And that it's really going to hurt badly when he finds out they're not so easy to win.

So, if you're right, does that set up a massive rally where there's a relief and everybody says, oh my gosh, we're not really going to have a trade war after all? Everything's great and we go to new all-time highs on the stock market?

Pippa: I think that this is a scenario we should definitely be thinking about. And let's add to this scenario that both sides are going to be in a position to say we've thrown all of our dirty laundry on the table, we have come to an agreement about the whole darned thing. And they basically clear the stage for the next (call it) 20 years.

That's a real possibility. That the Chinese and the Americans, after all this shouting, actually say, well, you know what? We do have a deal. And it's not just on North Korea. It's on high tech, it's on the South China Sea, it's on whether we're going to bug the Chinese about their increasing military presence in Africa and the Middle East.

They come to some kind of general arrangement and suddenly the two sides are holding hands, everything calms down. Yeah, definitely, the market is going to have priced in something very, very negative. And what actually happens is something potentially positive.

I don't want to say that I approve of this strategy. This is a president who, basically, began this whole thing by threatening North Korea with a full nuclear strike. Nobody can forget that's how this started. And only when he threatened that did the Chinese and the North Koreans all go, okay, let's sit down and chat.

Now, part of what's happened here – if you look at it really carefully, if you unpack everything – you'll also find, for example, the steel tariffs have been, let's say, implemented in such a way that the country that's the most damaged is not China. It's Germany.

Now, why did the United States and China want to gang up on Germany? That is partly because the Chinese are now competing nose to nose with the Germans, because the Chinese aren't anymore in the business of making cheap toys. They're out of that.

They are now making fast railway lengths, very high-speed bullet trains, very high-tech manufactured goods. They are competing directly with the Germans in all of these areas.

And if the Chinese want to hurt their competition, an easy way to do it is you get the President to announce steel tariffs that actually, in the end, hit the Germans hardest. And that was, I think, intentional on the American side.

Even Obama was having trouble with the Germans for a variety of reasons. But, under Trump, much more so. And his big gripe is, basically, that Germany is not holding its end up on the defense spending. But that also they are generally obstructive to most of the things that he believes in.

And that's true. It's very hard to reconcile how the German political leadership views things versus how Trump views things. So anything that he can do to hurt the Germans is okay in his book.

So, suddenly, you also have an alignment between Trump and the Chinese when it comes to being tough on the Germans. And I would look at every single trade announcement with that angle. Forget if it looks like it's aimed at China. Probably if you unpack the thing you'll find out that, actually, the country that will get hurt the most will be Germany.

Erik: I want to come back to North Korea and Kim Jung Un specifically. I've heard such a range of viewpoints.

Some people have said that Kim Jung Un is basically a puppet for China. Anything that he says, he is saying because China told him to. This whole kerfuffle between the United States and

North Korea is a proxy. It exists as China's way to impose threats or to negotiate with the United States government.

The other side of the argument is, no, Kim Jung Un is totally hell bent on his own position as, essentially, a dictator of a nuclear-capable country who sincerely intends to send nuclear missiles to bomb Hawaii, or whatever the threat happens to be on a given day.

How do you see this? Is North Korea really the renegade wild threat to world peace and to the United States that it has appeared to be? Or is it really just China's negotiating arm?

Pippa: Two things. One is: North Korea is not a "state" in the way that we usually think about a state. It really is a cult of personality. So the cult of that personality is this current leader. And it was his father before that.

And the father and the son are very, very different. They are not at all the same thing. So, when we talk about North Korea, we have to understand we're really talking about an individual personality.

The current leader does seem to be a lot more switched-on and sensible than the father, and is, basically, trying to preserve something as opposed to ending up with nothing. So he's doing something we haven't seen North Korea do before, which is to negotiate rationally.

I remember talking once with Bob Gallucci – he was one of my teachers at Georgetown University. He'd been the nuclear arms negotiator with North Korea under Jimmy Carter, which is when this whole game started. And the Americans said, you can build the light-water reactors if you promise not to build the big stuff.

Anyway, Bob Gallucci used to say everybody assumes that they are rational. But they're not. You're in negotiation and suddenly they start saying stuff that's against their own position. They'll negotiate against themselves.

So this is a thing. They're not really part of the modern world community and they don't think the same way. So that's one issue.

The second issue is: I was once very privileged to spend about five hours with Helmut Schmidt, the former Chancellor of Germany, who had laid the groundwork for the reunification of East and West Germany. I was in graduate school, I was between jobs, and I got this gig writing for a magazine called *International Economy*.

I wrote to him and said, I'd like to come interview you about the possibility of reunification of North and South Korea. And he wrote back and said, I don't give any interviews on the reunification of East and West Germany. But nobody ever asked me about this other thing. And I'm advising the South Koreans and I would be delighted. So come to Hamburg.

So I went and sat with him in his office. And he was super-famous for chewing tobacco and spitting it pretty much across the room, which, I tell you, for sure, that's exactly what he did. It was absolutely disgusting and totally fascinating.

And he walked me through the situation. He said the following. He said, look, with East and West Germany, at least the East Germans understood the concept of you get up in the morning, you go to work, you earn a paycheck, and on the way home buy a beer with the money that you made.

This is not the case in North Korea. People there don't work for a paycheck. They work to not be killed. The reason you're alive is because you are in a position of total submission to the leader – and only one person, the ultimate leader.

So they have no sense of a work ethic or how labor normally has any negotiating power. I mean nothing. So the big issue for all the neighbors, for decades and decades and decades, has been no one wants any refugees because these people are impossible to manage. And they've been taught that foreigners want to kill your children and eat them for breakfast. Dreadful, terrible things.

So you have a kind of warped psychology in conjunction with a complete lack of understanding of the value of human labor. And, therefore, integrating them into the world is going to be hard.

So, today, when China says we'll do that in exchange for getting control and in exchange for removing the nuclear issue, we will take on the responsibility for integrating these people into society. And everybody's kind of like, you know, that's a pretty good deal.

Even the North Korean leader is going, well, if you're going to do that there is some hope that I might survive that process and still have a voice, still have money, still have a part to play. That's why Xi Jinping summoned him to Beijing twice – the first time he's ever left the country, the North Korean leader. And he went. He went right away, because he understands this is where his bread is going to get buttered.

So when you say rational, logical, there is such a crazy set of circumstances here that it's very difficult to assess it on any normal grounds. That's why I say the context is so different from anything we're used to looking at.

Erik: Let's move to Russia, which is the other really big geopolitical hot basket, if you will. It's interesting to me, Pippa, that there has been so much talk about how awful, awful these things that have occurred in Syria have been – the chemical attacks and so forth – and the US was forced to act and the missiles and the whole bit.

The whole while, Russia was saying it's all fake. It never happened. And that seemed hard to believe.

Well, I noticed that the OPCW, the Organization of Prevention of Chemical Warfare, just came out with a [report](#) saying it seems like Russia might have been right on that one – there is no evidence of any chemical weapons having been used here. And the whole sarin story that the US government used as justification for that tomahawk missile attack maybe never happened, according to some independent parties.

So what's going on? Who is right, if that's clear to you? And where are the risks in terms of, regardless of who's right, both sides seem pretty darned strong in their positions?

And the rhetoric, I don't think, has ever been louder. I don't remember any time during my lifetime – I grew up during the latter half of the cold war, the end of the cold war – I don't remember Russia and the United States ever talking at each other quite as aggressively as what I've heard in the last several weeks.

Pippa: And then there's another angle on this, which is, of course, the chemical weapons allegations that are here in the United Kingdom where we've had now two incidents – one with the Skripal family (the father and daughter) and, more recently, with a British couple who seem to have come in contact with the same novichok agent.

And, similarly, there is a big debate here about is this real? Is this not real? Where is the truth?

And I think the honest answer is none of us can know for sure what the situation is. Personally, I'm always going to throw my trust behind the British authorities. I just can't imagine the circumstances under which they would make something up. But, nonetheless, it's a big open question.

And I think it's part of a much bigger issue, which is that the battle between Russia and the West is no longer being fought with traditional means. It's not about submarines and aircraft carriers, although they are still being used. And we're still seeing lots of air incursions, submarine incursions. The Russians are constantly threatening to dredge up the internet cables that are under the sea to be disruptive.

So it's not that it's a zero. But that's not where the real action is. The real action is on two different fronts that are related. And it's all about technology.

The new space race – and it's between the US, China, and Russia – is for who has the most computational power. Computational power is what permits you to do what happened with Cambridge Analytica, to get the story out that you want to get out. It's the thing that allows you to influence people with your angle of what is reality versus somebody else's angle of what is reality. It's information conflict and war rather than physical conflict and war.

Although, having said that, we are seeing lots of actual traditional military events. The Russians are being very active, for example, in the Baltics. It wasn't that many months ago they practiced

seizing an island in Norway called Svalbard, which is where the international space station operations are managed, and a whole lot of other things are happening in Svalbard that have defense meaning. And they decided to have a go at potentially seizing that location. Of course, that would have invoked NATO Clause 5 and created a big issue.

Anyway, there's a lot going on between the two sides. I don't know how we can parse apart who is right and who is wrong. What we can know is that the two sides are going to keep accusing each other of stuff and the two sides are going to keep defending themselves. And I expect this to become much louder over time.

For investors, the question is, what are they going to do about all this? And I think the honest answer is the risks that this turns into something that an investor genuinely has to take into consideration are not that high. Because nobody really wants to take it to that place.

And, frankly, if we end up in a situation where everybody is genuinely talking about a nuclear exchange, your portfolio is going to be the last thing you're worried about. Right? You can't really plan for that eventuality.

What you can do is say the risks of being involved in places that are affected by this are too high. I would name some places like – if I were investing in oil and gas, particularly natural gas discoveries in the Eastern Mediterranean, I would say, that's got a big geopolitical risk because the Russians have said, basically, we don't want that developed. We're going to have a permanent naval presence in the Mediterranean (to make sure it isn't developed).

I would say that's a major geopolitical risk to that investment. And Israel has got a lot of money backed on that being developed. A lot of the neighboring countries are arguing about who's going to get the cash flow. So that's a good practical example.

I would be betting everybody's going to spend a lot more money on computational power. This race for who can calculate the most stuff is going to persist. And I would be betting there are going to be some good knock-on effects from that.

As governments spend money on that, private sectors tend to benefit. It's a bit like the new version of building the internet. Suddenly they put all the money into the infrastructure and the general public starts to learn how to benefit from that infrastructure.

So I think it's noisy, but I don't see it as an obstacle to markets continuing to do what they're doing, which is basically finding ways to go up, to value assets more highly.

Erik: I definitely want to come back to the technology aspects of this, because I think it's really fascinating.

But, before we do that – on the subject of Russia – Sergey Glazyev has been credited as the mastermind of this de-dollarization strategy, to try to persuade other BRICS countries to

abandon the dollar.

From what I understand, Mr. Glazyev has recently been appointed formally as an advisor to President Vladimir Putin. Previously he's been a very interesting character in Russia. He's somewhat controversial in his views, but he's a scholar in a university. Now he is formally advising the president.

He did an interview recently in English that I thought was fascinating. We shared that with our MacroVoices listeners a couple of weeks ago in the Research Roundup email.

He says some very, very strong things in that video. He says what the United States is doing is an act of financial terrorism. They're using their control of the SWIFT payment system, which is the international wire transfer system, as a tool to enforce sanctions that are not even approved of by the UN, and that are specifically disapproved of by a lot of other countries.

An example of that is cutting Iran off and using the SWIFT system as a tool to impose sanctions on Venezuela. And Mr. Glazyev is saying it is way past time for the rest of the world to recognize these acts for what they are, which he says are financial terrorism, and to take action to protect the rest of the world.

He sees it as a defense mechanism. Not an aggressive action, but a defense mechanism to protect other countries from actions of financial terrorism, as he puts it, perpetrated by the United States.

And, okay, the part that he thinks all these things is not news to me. I've been following his work for a long time. I know that he holds these views. But he's just been formally appointed as an advisor to Vladimir Putin, at a time when it seems like maybe there is a lot of building consensus and a lot of critical mass building around other countries in the world to say maybe it's time for us to design another payment system.

And it really makes me think of you, because you and I have talked about digital currencies before. It seems to me like the opportunity is so ripe for them to say let's design a new world reserve currency, a fully digital currency. It has some of the benefits of the cryptocurrencies but it is more centralized it's controlled by the government, and it replaces the US dollar.

So he achieves his de-dollarization goal and he eliminates the risk that he sees from the US having a monopoly on the payment system through SWIFT, all at the same time.

What do you think? Do you think they're up to something like that? And, if so, would they partner with China to do it? Would they be doing it on their own in secret? How would it come out?

Because he never publically talks about any kind of digital currency. He doesn't say a word about it. But that almost makes me wonder what they're up to.

Pippa: The first thing is – this is exactly the argument that I made in my last book *Signals* – how everyday signs can help us navigate the world’s turbulent economy. I was basically saying that the way the rest of the world, particularly the Chinese and the Russians – but, frankly, the Europeans as well – the way they see things is the post-war international rules of the game, when it came to the world economy, the organizations like The World Bank and the IMF, the rules like the World Trade Organization system, these had been established so that everybody got a fair shot at a decent outcome. So that the whole thing wasn’t skewed in the direction of any one player. It was meant to let everybody compete and, basically, the best country wins, as it were, in every category of trade and policy and whatever.

The perception has been that in the last decade or so, particularly since the financial crisis, the US has chosen to skew the rules of the game in their direction at everybody else’s expense. I’m not saying I agree with that view, but I believe that view is very strongly held by, particularly, the Chinese and the Russians.

And both sides are saying, you know what? Let’s just create our own rules and our own organizations.

For example, the Chinese tried to say, well, if we make a bigger contribution to the World Bank and the IMF then we want more representation. And the US basically said no way. So then they’re like fine, we’ll just create our own, which is the new Asian Infrastructure Investment Bank (AIIB) which is underpinning all of this Belt and Road Initiative infrastructure build-out.

When the sanctions went in on the Russians and the US said we’re going to cut you guys out of SWIFT, that’s exactly what the Russians said: Wait a minute, I thought SWIFT was a neutral, international organization that facilitated payments. It wasn’t meant to be used for political purposes. So if you’re going to use it for that purpose, then we’ll just create our own system, a separate one. And that’s exactly what they’re doing.

So, again, I’m not saying I agree with the Russians or the Chinese perception of reality, but I concede that that is their perception of reality. And they are working very hard to create alternatives to what we have in the West and what we’ve traditionally relied upon.

I think that the American side doesn’t get this. Because, well, you know, I’m American and I’ve worked for two presidents, I’m working now in the British government, and what I see is there is a tendency to think that our way is the right way and this should be completely obvious to everyone else. But it isn’t.

So we’re in this situation where the rest of them are going, you know what? Technology permits us to build alternatives. We don’t have to be in your system anymore. And, frankly, the way the system is working is becoming so much more demanding in terms of paperwork, all the know your customer, all of which I support.

But the rest of the world is going, wait a minute, I'm not even doing a money transfer that involves the United States. I'm moving money from two other countries and I still have to comply with the US system? Maybe I'd rather look at a Russian alternative or Chinese alternatives. In other words, there is a market for what they're proposing.

And that's connected to this de-dollarization approach, which they had already begun separately, from what I'm arguing. But the two come together. And I do think that they're trying to create a world where they diminish the need for people to hold dollars.

The lucky break that we have is that, as the Chinese and the Russians sell dollars, which they are, who is picking them up? The answer is all the US pension funds, because they are all underfunded. They don't have the right asset/liability matching. We don't have long-term Treasuries anymore, so they can't buy Treasuries. They have to buy them secondarily off the Russians and the Chinese as they sell.

So we haven't felt pain of higher interest rates as a function of these foreign holders selling Treasuries. That's a lucky break, that we happen to be in a moment of history where all of our pension funds desperately need those assets. And not for betting purposes, but just because they've got to match the assets and the liabilities. How long that lasts is another question.

In the meantime, yes, they are building a world that will not be so dependent on the United States. And the question is, what does that really mean for the world economy? Is that truly a threat to the United States? Or actually does it not really make that much difference if you have investors from Africa investing in Russian mining that never touches a dollar, that they can do all of that in rubles or in Chinese yuan?

It's an interesting question, and it's an open question. I know the market is playing with that question. But I don't think the answer is so completely obvious yet.

Erik: Pippa, you are best known as a geopolitical analyst, having advised two US presidents, now working in the British government system. That's what people think of you as being an expert on.

Most people would never think that I would ask you high-tech questions about Silicon Valley and what's going on and so forth. But, as we discussed off the air, you really think that the new era of geopolitics and finance – how does geopolitics affect markets – it really is going to be about what's going on with social media and technology.

So please elaborate on why you think that. Why is it that someone like yourself, who focuses on geopolitics and how it affects financial markets, would care about something like Facebook and what they're up to? And tell us what you've learned and what your feelings are about the things that are going on there.

Pippa: I think that President Putin put it best. He said artificial intelligence is the new frontier of

geopolitics. And I think he's right. He's absolutely right.

A couple of times in this interview I've talked about this new space race for computational power. Now I'll elaborate what I mean. Whoever has the greatest capacity to compute has the greatest capacity to break everybody else's codes. And it doesn't matter whether they are nuclear codes or they are the password for your Facebook account. Or your password for your bitcoin account. All of them are just codes to be broken. So all sides are now in this massive race.

The Chinese are building a huge facility in Anhui Province which, it is said, when they're completed in three years' time it, will literally have one million times the computational capability of the entire planet today. That's a hell of a thing to think about.

But, the Americans, we just announced a few weeks ago our new supercomputer, which, by the way, we house at Oak Ridge, which is where we keep nuclear facilities. So this is important, it's considered on a par with our most secret nuclear weapons. This new thing, it's called Summit. And just to give you an idea of the computational capability, it's said that it can do what a human would take 6.3 billion years to do – it can do it in one second. So when we talk about computational capacity, that's what we're talking about.

The Russians, the Americans, and the Chinese are all focused on getting the biggest grunt. Which is why quantum computer is now a geopolitical issue. And everybody is racing because that's just pure grunt. That's just X many calculations to the power of fill in the blank.

It's not that quantum computers do the same thing as supercomputers. They're very, very different. They can't do all the same things. They can do other things. But the main thing is just the pace at which they operate is so much faster.

So, why is this important? It's important because once you can break all the codes you can begin to gather data and understand what is happening on your opponent's side. You know this famous saying that's going around that data is the new oil? Well, it is. It genuinely is.

So if we look at the case of Cambridge Analytica, which I think is just the bare tip of the iceberg, they didn't even hack, right? They just had access to all of the Facebook likes of roughly 81 million people. And from those Facebook likes that they didn't steal, they just had access to them, they were able to compile a psychometric profile of every one of those 81 million people and create 5,000 data points about each one of those individuals based on that one input.

Well, today, we live in a world where you are giving away data about yourself far beyond when you click on a Facebook like. And it's in the form of, for example, look at the most valuable artificial intelligence startup in the world. It's called SenseTime. It's a Chinese company. What they have, it's worth, I think last time I looked, US\$3 billion, as a startup.

What it can do is canvas a crowd of 10,000 people and identify not only every individual in that

crowd – this was the technology that was recently used to arrest the guy who went to the rock concert in China that had 60,000 people attending. They found him out of the entire crowd and went straight to his seat and said, Mr. So-and-so, you are under arrest. Because they can identify everybody.

But it can also identify the emotional state of every individual in that crowd of 10,000. Now that's incredibly valuable because that's what Cambridge Analytica was able to do – identify the emotional state. How do you feel about Donald Trump? How do you feel about Hilary Clinton? And begin to then hit you with messages that would push your position, based on that emotional state.

You know, you could sell anybody anything if you know their emotional state. You could sell them a political position, you could sell them a refrigerator. Every company in the world wants access to this because they can sell you stuff and you're pretty much helpless. Because they know where your hot buttons are.

Now, take this a step further, just so we really understand what this means. This is the same technology that now is used that when a cheap executive goes on CNBC Squawk Box in the morning to talk about his company, this is the technology that is capturing the facial movements of that CEO, the micro facial movements. Those reveal when you are lying.

And now we set the algorithm to short your stock the minute that those algorithms detect that you're lying. So, while you are still on air on CNBC Squawk Box, the algorithms are shorting your stock. Because your little micro facial movement revealed that you're lying about some aspect of the company.

That's the world that we're in. And all of these nations, at the level of government, understand how much power you have if you have this insight. And that's where the real geopolitical fight is taking place. It's over data. It's not the old land battle situation. It's a data battle.

And that's why, if you're in markets, technology is not this cool interesting thing on the side. This is at the heart of not just markets but at the heart of geopolitics as well. Technology is now a central, defining feature of the geopolitical landscape, as opposed to something quite separate.

When Zuckerberg went in front of Congress to do his testimony, which I thought he handled remarkably well, given the stupidity of the questions – I mean, clearly, Congress has no idea how Facebook operates, how technology operates. They totally revealed their lack of understanding and there have been a lot of spoofs on that all over the internet.

But what is important is I'm not sure Zuckerberg really appreciated until he was in that position that he is not running some private sector organization. He is running, effectively, a public entity. And I don't think Silicon Valley has registered the public role that they are all now playing. Because they're like no-no-no, it's just my little company. I'm just Twitter, I'm just this,

I'm just that. But, no, it's at the heart of geopolitics now.

So I think this is really important for investors to understand. And I've got a big chapter in my upcoming book on leadership that's just about how to navigate in this new data-driven environment, because it's very, very different from the past.

The last thing I'll say about this is in military history we used to have, if you remember, Alfred Thayer Mahan talked about sea power. And Harold Mackinder, back in the mid-1800s, talked about land power. And then World War II was won on air power. And World War I as well.

Well, now we're in a period of data power. That is the new geopolitics. And that is why, if you are interested in markets or geopolitics, you can't treat tech as some other subject. Because it isn't anymore.

Erik: You know, this is really fascinating, Pippa. And the thing that has been so striking to me about the Cambridge Analytica story is just how people are getting so wound up and bent out of shape over what seems to me like a trivial, tiny, eensy, weensy, teensy, weeny little small example of what kind of abuse the pump is primed to cause to occur. You know, that was just not a big deal.

Now, if you look at what social media is – and a lot of people have been saying this for more than a decade – if a product that's as cool as Facebook or Twitter is free, what that means – this goes back to the famous Warren Buffett quote: If you're sitting at the poker table and you're not sure who the sucker is, then you're the sucker.

If it is free, then that means the real product is your personal data. And this is the reason that I have refused to participate in Facebook. I'm not stupid. I understand that by using Twitter somebody is keeping track of what time I'm awake, where I am. They're tracking my IP address. They know exactly where I'm located, what I'm doing, what times I wake up, and what subjects interest me. They are tracking me and they are using it in ways that I can't even imagine.

But, you know what? Twitter is so cool I can't resist using it. Because it gives me access to smart people who are interested in what I'm interested in. So I go ahead and I do it anyway.

And I guess what it really makes me wonder is how would we ever get to the point of there being some justice, some system of regulation or laws that protect us so that things can't be used in inappropriate ways?

How could we ever get there if, first of all, most people don't even understand how big the problem is. And, second of all, even if they did, as you just said, it's very, very clear that lawmakers are absolutely unqualified to know what to do with this. Even if they wanted to try to enact some kind of privacy laws to protect inappropriate use of social media data, they wouldn't have any idea where to start.

Where do you see this all going? Because it seems to me that eventually everyone's life is, every aspect of your being is knowable through your social media. And as the social media gets better and better, it gets harder and harder to resist and everybody is on it.

Where is this all leading?

Pippa: Well, this is the topic of this one chapter in my next book where I talk about the datasphere. First you have to understand that you are emitting data even if you are *not* using social media. This is way beyond social media.

When you watch the movies at home or in the cinema, increasingly the screens have cameras imbedded in them because why bother with a test audience if you can see a live audience reaction to something?

And they'll say, oh, but it's just generic. We're just capturing the emotional reaction of the people who live in this postal code, so it's not about you personally. And so you may say, well, I still don't like it but at least it's not about me.

And then you're using a vacuum cleaner. You know, these little robot vacuum cleaners, they're round and they go around your living room and vacuum by themselves. Well, what are they doing? They're broadcasting the dimensions of your living room, the human footfall, and the time of day that happens.

So far, they're not broadcasting audio. But, increasingly, devices are. For example, the Amazon Echo has already been subpoenaed in a murder trial and, initially, Amazon said no-no-no, this is private data. And then two weeks later they handed it over because it is a witness in a murder trial. And it's a reliable witness, because it heard the conversation and recorded it.

Imagine, pretty much all the time when you go to the department store and you walk past the Giorgio Armani counter, the cameras are capturing your reaction to what you see. So that the company can understand, how should we change the advertising and make it more attractive to you?

In the past, these were all independent silos and each company could say it's just generic. But what artificial intelligence does is it connects the dots between the silos. So it doesn't take long to figure out that it was you at the movie theatre, specifically you. And this is your emotional reaction. And you also bought popcorn while you were there. And you're using a Fitbit. And you're supposed to be on a diet, but you're breaking the diet by eating the popcorn. It begins to triangulate. And it can isolate you and specifically you.

Now, what we don't have is really prohibitions against this, because the only people who can buy all these silos and deploy the artificial intelligence to put them together are really, really big companies.

I'll give you an example. Some banks are already using this kind of approach to identify. And they can successfully identify when a married couple is going to get divorced. They can tell from the spending patterns. And they can tell from the artificial intelligence overlay.

So what they'll do is they'll run down the credit limit of the lower-earning partner, which typically is the woman. Suddenly she's got her credit limit going down and she doesn't know why. That's because the bank knows you are about to get divorced because your husband was buying lingerie not in your size at some shop and it's showing up on his expenditure patterns.

This is that world that we're now in.

So think about it as this: Facebook likes is the tiny, as you say, eensy, weensy, little piece of this. Now take every kind of data that you are emitting, even the stuff you don't realize that you're emitting, and it creates millions and millions and millions of data points about you in a kind of holographic set of data points like a sphere of data all about you. That space knows more about you than you know about yourself.

And that's why some of these psychometric profiling questions that Cambridge Analytica did and that lots of other websites do – you know, we can tell you what body type you are if you fill out this form. Well, as you fill it out, what you are doing is giving away your psychometric profile. That's very valuable to companies who buy it and then understand how to advertise to you. And specifically to you.

So I think this is a whole new relationship between citizens, between citizens and the state, between citizens and corporations. The shift in the balance of power is enormous.

And I'll finish by giving you one practical example of this, which is what we see the Chinese doing. The Chinese government, in their effort to control outcomes and prevent dissent – generally they'll argue, look, we've got a big country with a lot of people so we don't have the freedom that you have for human beings to go off on their own road. We need everybody more in a similar, narrower space.

So the way they do it is they take all these data points that I've just described – because they have everything – all the platforms, fundamentally, they all are available to the government. That's why, by the way, they banned something like the top 4,000 English language websites, like Facebook and WhatsApp, because they only want you to operate on stuff that they have access to the data. So citizens can't access the rest of the world. They have to go through the permitted channels.

With all this data, they create, effectively, an N-score, an Uber-score. Just like you get a score with Uber, now you have a Chinese government social credit score. And if that credit score falls below a certain point, you can't take a train. You can buy a ticket, but you won't be permitted onto the train. You can't fly. They say now 11 million Chinese people are prohibited from entering an aircraft, and 4 million from entering a train, because they are not being socially

compliant.

What can make your score fall? Well, if you leave your bicycle in the footpath – points deducted. If you fail to stand for the national anthem at the football match – points deducted. If you apparently apologize insincerely – points deducted. And, of course, now the technology can tell that you're apologizing insincerely because, as I said, it can identify your micro facial movements, so lying is obvious to the artificial intelligence. You can't duck and dive anymore. It's clear.

That world where the power of government to see you with such clarity that you cannot even know about yourself, or businesses can see you with such clarity you had no idea that you were so vulnerable to being sold to in a particular way – this is a profound change in the balance of power between citizens, between citizens and businesses, between citizens and their state, between businesses and the state, and between states.

So I think it almost demands a new political philosophy. We're going to have to think about what is a new legal infrastructure. Think about this. In the past, we've had insider trading laws, right? If you have inside info you're not allowed to trade on that.

What I'm talking about is insider trading, where you have so many insights into Pippa Malmgren, she has no idea that she's going to be buying stuff because she won't have any choice, given what we know about her and how we're going to present it. So do I need protection as an individual from people who have much more insight into me than I have into myself? Maybe we do.

And I'm not a person who is in favor of more regulation under normal circumstances. But this is a profound change in the balance of power. And that's why I think everybody needs to pay attention.

The last thing I'll say is all these folks who think they can escape fiat currency by wandering off into Cryptocurrency Land, they are going to be sorely disappointed when they find out the only person who can't remember their bitcoin password is themselves. Because everybody else, all these governments and government entities, they are all going to know exactly, because of the keystrokes.

So this is not like you can escape the datasphere. We're now in it. And the question is how are we going to govern ourselves in that space?

Erik: Well, Pippa, I have to believe that if that's just one chapter in your new book our listeners are dying to know what the rest of the book is about. We only have a minute before we close, but, quickly, give us the story.

What's the rest of the book about? When will it be available? And where can people find it when it is?

Pippa: The book is called [The Leadership Lab – Understanding leadership in the 21st century](#). It's from Kogan Page. It will be out in October. And it came from – when I wrote about signals, and I said that there are signals in the world economy that tell you when stuff is coming but it's not in the data yet, it's stuff you might see with your eyes.

I realized there were lots of leaders that I'm advising – government leaders, political leaders, business leaders – who keep being blindsided by things like Trump, by Brexit. And why? Because they don't see the world in the way they need to in the 21st century.

The book basically says, first, we need to have much more diversity of thinking. Everybody's working hard on diversity of people in their organizations. And I'm 100% for that. That's great. But diversity of thinking is even harder to achieve. And we've got to get more of that, because the possible scenarios are so great. You just can't afford to say anymore, oh, Trump will never win. Or Brexit will never happen. Yet now you're firmly rooted in mediocrity because you're not even considering other outcomes.

A second thing is how to be more what the military calls situationally aware, so that you understand what's happening. Like, what I just described in terms of the datasphere, I have no doubt a lot of people are going to go, oh, my gosh, I had no idea. Well, that's right. And so we need to have a better idea of what is actually happening versus what we think is happening.

It's also a book about how leaders need to do less of the drilling down into any given silo, going deeper and deeper into the data, because that was a very 20th century view that if you got more data you would get the answer. The 21st century is all about the look across. It's about connecting the dots between the silos. It's about seeing the landscape.

And, finally, it's to say, you know what, like it or not, feelings matter as much as facts these days. We have to understand with this overload of data, people are going to start not focusing on the facts but, instead, processing on an intuitive way. How do I feel? And we've got to get a lot more comfortable dealing with both that quantitative and qualitative simultaneously.

Those are the key points. We interviewed a lot of leaders and had a big conversation with them that helped form the basis for this book. I wrote it with my friend Chris Lewis who brought a male perspective to advising leaders and I brought a female perspective to advising leaders.

Erik: Pippa, we're going to have to leave it there. But we'll definitely get you back on the program closer to October when the book is out and we can get into more detail about it.

Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.