

World War III Has Already Begun

The following is an abbreviated version of a presentation at the Mauldin Economics Strategic Investment conference. Dr Malmgren was being interviewed by Ed D'Agostino. I have removed their references to other things I think the issue is so important that I've kept most of it. Ignore it at your peril. Any items in parentheses are my additions. **Yellow highlight is my emphasis.**

Ed D'Agostino: You wrote back in October of 2021 that World War III had already begun, and it's playing out in large part the way you had predicted. You talk about at sea, in space, and in cyberspace. And since that day, you can see all these dots being connected. Where are we at in terms of global conflict right now?

Pippa Malmgren: Let me preface this by saying, I also argued in that Substack piece that World War III would be very, very different from World War I and World War II because immediately when you say that, people have visions of tank to tank and naval vessel to naval vessel and a lot of loss of human life, but this is a much more technological war. This confrontation is happening, I've described it as "We're in a hot war in cold places," by which I mean space, the high seas, we're now in naval conflicts... This is a huge change from all the land conflicts that we're accustomed to, and it's often in locations that we don't think of, like the Arctic and the high north, Scandinavia. And so these are all places where there are no journalists, by the way. There are no journalists in space, there are no journalists on the high seas, and there are no photo ops.

So they can't show you the story. It's much easier to just report Ukraine and now, of course, the situation with Israel and Gaza because it provides a place for journalists and photo ops, but that doesn't make this "invisible war," as I call it, any less real. And we're also in a cold war in hot places, which means the conflict that's between the US and its NATO allies and a combination of Russia and China and their allies across all of Africa and in the Middle East, which is very much part of the Israel-Gaza story, in my view. We make this mistake of thinking these are all localized conflicts, by the way, Ukraine and Israel. I don't think they are. They're symptoms of this much larger conflagration.

What Russia-China, in alliance with Iran, North Korea, and a few others, are trying to do is basically force the United States to come to the table to agree a deal on specifically Ukraine. And in my judgment, the White House position is, they *want* a deal on Ukraine, but they don't want to announce it until right before the presidential election, for obvious reasons. Because Americans will forget. If you announce it now, they won't remember and give the president any credit for it by November.

So President Putin's view is, "Fine. I will make your life hell between now and then." And this is what we see. And this is one reason we've just seen the head of the FBI come straight out and say, "There's a real risk now of cyberattacks on the United States," and I could go deeper, but here's the fundamental question we need to ask ourselves.

When I was in the White House during 9/11, the big thing was, if there's going to be a war, you want to make sure the war is not here. It's there. Where is "there"? It almost didn't matter at the time. Long story I won't dive into, but as long as it's somewhere else, you protect American citizens. This time, the war is beginning to be here.

Ed D'Agostino: What does that war look like, Pippa?

Pippa Malmgren: Well, so now we have to start making some judgment calls. It's super interesting that, like I said, the head of the FBI came straight out and said—and he specifically mentioned China, but it's really China and Russia together—they are gearing up to do critical infrastructure attacks. Now, this is in the aftermath of, of course, the Baltimore accident. And within the strategic-

security community, there's lots of discussion about that not being an accident but rather being a very good example of modern cyber warfare where you can disable the computer systems, or take control of the computer systems, and create havoc. Maybe it matters that only three or four days after that, there was a similar event that wasn't very much reported, in the New York Harbor, where a big container ship nearly hit the Verrazano Bridge. Was that random? Or is there something going on with the vulnerability of ship computers?

And let's face it, we live in a world where almost every major port in the world is run and controlled by the Chinese. (*The Chinese have a long term lease on the port of Darwin.*) All of the ships in the world are hooked into those software systems. Whether that's all connected or not, it matters that our most senior leadership are saying this. And I've pulled up some quotes, just to give you an idea.

I tried to publish an article on this, and it wasn't published, partly because what I'm about to say is just simply too scary for people. But we had General Sir Patrick Sanders, the chief of the UK Army, and he said, just about eight weeks ago, six weeks ago, "Ukraine brutally illustrates that regular armies start wars and citizen armies win them," implying that citizen armies are going to be important.

Then the German defense minister said, "Putin's threats against the Baltic States, Georgia, Moldova must be taken seriously. This is not just saber-rattling." The Belgian chief of defense said, "We see that Russia has switched to a war economy." In Sweden, the civil defense minister said, "There could be war in Sweden." The chair of NATO started to talk about, he literally said, "Not everything is going to be hunky-dory in the next 20 years." That was a Dutch person using the phrase "hunky-dory."

Bottom line—again, I'm not saying that we're headed into the kind of conflict where you become a prepper. I *am* saying you need to understand that the amount of pressure being placed on the White House to agree on a deal over Ukraine is mounting every day. And we may be ignorant of these pressures because we're not watching what's going on. And that's why I say, we have to watch events in space. Any efforts to damage satellites, limit access to certain orbits by destroying satellites, signs of events in the naval realm, submarines, events with ships at sea, which we're seeing all the time.

And finally, I'll just say this, instead of arguing about whether the US could win a nose-to-nose conflict with either Russia or China or both, think of it this way. This is jujitsu; this is not wrestling. Jujitsu is where China and Russia do things that suddenly force us to deploy our military and have them on high alert. So now we are deploying the Navy and aircraft carrier groups to deal with Houthis with missiles on their shoulder, which an aircraft carrier can't really do very much about.

But how much does it cost to deploy those vessels? The answer is nobody knows, but it's eye-wateringly expensive. And at some point, the Navy's going to have to tell the Congress what that number is, and we're all going to choke. And the purpose of the exercise is to drain the US dry of funds. It's not to fight in a traditional military strategic sense. It's a bleed-you-dry strategy.

Ed D'Agostino: How coordinated do you think this is? Because you wrote recently about what's happening in Eastern Russia, sort of classic geopolitics. East of the Ural Mountains in Russia, there are things happening. And I've read this not just from you but a couple of different places where China is moving pretty aggressively into the eastern portion of Russia to secure commodities. So, are they friends? Are they allies? Is it just convenience?

Pippa Malmgren: Well, so, welcome to geopolitical chess. You're friends when it's convenient, and then you're going to be enemies when it's convenient to one party but not the other. So I think of it this way, and it sounds so funny, but it's like two guys in a bar, and the Russian says, "I hate these Americans. I hate NATO. I want to get into a punch-up with them." And the Chinese guy says, "You should do that." And so the brawl begins, and then there's blood everywhere. It's a mess.

They go back to the Chinese guy and say, “Hey, why did you support this guy?” And the Chinese guy says, “Hey, I just met him. We’re in a bar.” I mean, literally, right?

Does Xi understand that this war is crippling the Russian economy and Putin? Yes. Is it advantageous for China to have Russia to throw a punch that reveals an enormous amount of valuable intelligence about the United States and NATO? How do they respond? What’s the public response? What’s the reaction time? Where do they place military material? But also, if it weakens Russia, is that advantageous to China? Sure.

So my view is that... part of this is east of the Urals is already pretty much controlled by Chinese organizations and part of the deal over Ukraine where China says to the US, “We don’t want nuclear war either. So we’ll help you with this. We’ll be a peace broker. But our price is, we want you to back off Taiwan, and we want no complaints when we’re pretty much running everything east of the Urals because we need our economy to grow. You need our economy to grow. And if we can get our hands on all those raw materials, resources, water supply, protein, forests, like everything out there, which Moscow’s never really been able to control anyway, if we can get that, then we’ll help you sort out Ukraine.”

And what’s the deal they’re looking for in Ukraine? Fundamentally, I think everybody now is leaning towards what will be an armistice. And an armistice is important because there’s no winner and there’s no loser. It’s a stasis. And that can last for decades, as we know from the North Korean experience; probably Russia gets to keep what it already has. So we have to look for them to reach a little more, and there’ll be a demilitarized zone. And Ukraine is what remains, the big question is, will that part be in NATO or not in NATO? And there’s a huge debate going on about that. In the meantime, to compel that to happen, Russia and China are providing assistance to proxies—small militias that can make life hell for the West. One of them is Hamas, one of them are the Houthis. And so are they creating havoc that forces us to the table? I would say yes, they are.

Ed D’Agostino: You talked about commodities, and this gets to the big overarching question for me with all of this activity, and I have to remind myself that I’m a Westerner, so I think in a certain way, and the rest of the world doesn’t necessarily think that way. So, I know you have more exposure to that. What is driving all of this? Is this political? Is it economic? Is it this sort of global grab to secure commodities that is happening because of this realignment or bifurcation between East and West? What do you think is behind it all?

Pippa Malmgren: Oh, as always, it’s a combination of all those things. But I wrote about this in my book *Signals* back in 2016, where I argued that inflation would return, and geopolitics would come with it. They go hand in hand. And I think that the roots of the current situation are in the bailout of the financial crisis. Because, remember, China especially was the principal creditor to the United States. So when we made the decision to lean towards inflation, which we did—free money, zero interest rates, all of that’s designed to stoke inflation, which the Federal Reserve thought, “Well, we can control. We can just have a little bit,” although history tells us that you can never control it once you start it. But their view is, “Wait, wait, wait. You’re defaulting on us.” Inflation is a default. And so we gave you our savings, and you’re saying, you give us back the 100 bucks that we lent you, but it will buy much less. And that’s a loss.

And then we stepped into the business of kicking Russia out of SWIFT and seizing their assets. And I think everybody in that part of the world kind of looked at each other and went, “Wait, this whole rules-based system that the US talks about only really works if the US is winning.” For example, if China produces their first global brand, really the first global brand, Huawei, and what is the reaction to Huawei? Shut it down. Arrest one of the senior management, ban certain products. Same when China reaches the best facial recognition AI in the world, which is called SenseTime. What’s the US reaction? Ban it.

So they're like, "Wait, I thought you said after the Second World War that the system was clear, whoever could produce the best product would win, and it would be a fair competition." But the US isn't holding a fair competition.

By the way, I'm not saying that these views are justified, or they justify or warrant what's happened in Ukraine or in Israel and Gaza. I'm not saying as well that this is a correct view of what occurred, but I think the perception by Russia and China is, the whole system is skewed against them. And so what they're doing is trying to change the system, and that's why they talk about "The rules-based system doesn't work. We're going to introduce new rules," and everything we're witnessing is tantamount to that.

Ed D'Agostino: Let me take an audience question Bill Gately, a friend of mine online, he writes, "I'm very concerned about the weak status of the US politically, culturally, militarily, and economically today. Could the US even win a major war today?"

Pippa Malmgren: I love this question. I do think, yes, the US can win a major war. We are so... not just technologically advanced, but operationally advanced, obviously compared to Russia and to China. The danger is that everything starts to escalate into the risk of a nuclear event. And there is fear in the strategic-security community that Putin might be so aggressive as to do that. And there has been a massive amount of analysis as to whether his military would execute that for him.

You know, 18 months ago, the guy who carries his nuclear codes ended up dead from two bullets to the back of the head, and it was called a suicide, which kind of—yeah, impressive, right?—implied that basically Putin said, "Launch," and he said no. And there is a long history of the Russian military being very measured and very careful about anything that might involve the commencement of nuclear conflict. The US also. (*I looked the death up. Correct as stated.*)

So I think everybody's trying really, really hard to prevent that kind of catastrophic outcome. But I do think we're in a very similar moment to the Cuban Missile Crisis. It's just that the public doesn't know that this is the current situation. I will say this, the risk that China and Russia's strategy succeeds... and that they have chosen this moment very carefully. They understood the US has a massive budget deficit. It has a current account deficit, has inflation, and many of the steps have been designed to exacerbate that situation. Ukraine pushed up both food and energy prices. And you say, "But they're more vulnerable to inflation." And I would say, "Yeah, but notice how they prepared. There was a lot of stockpiling and a lot of reaching into new locations that can substitute for protein and for food."

It's one of the reasons China's being more aggressive in the Pacific and the South China Sea because they have pushed up food prices, and inflation is a problem for them. But it was definitely a vulnerability for the United States. So the question isn't, can the US win militarily? The answer there is, yeah. The question is, how long can the US *last* given its own vulnerabilities if it's forced to spend on military readiness for a very, very, very long time? That's the question.

Ed D'Agostino: So you bring up stockpiling. I've been looking into that lately. It's super interesting, but I'm trying to figure out what it all means. So I saw recently... And you know what? It's hard to filter out the data, especially when you're looking online, but someone, a fairly well-known macro investor, I won't name him, but he put online a chart saying, "China's oil reserves are double the size of the United States oil reserves presently," and that makes you raise an eyebrow. But at the same time, our oil reserves right now, the Strategic Petroleum Reserve, is about half of what it was pre-COVID, and we're now the largest oil producer in the world. So it's kind of like, well, is that a big deal or are they just stockpiling because they have to?

Pippa Malmgren: Yeah. And again, this was the whole point of the Belt and Road Initiative, was for China and Russia together, to be able to reach into the world and gather strategic assets, food, and energy. And if you look at Russia's presence and China's presence in Africa, for example, most

people think that oil is funding the war in Ukraine on the Russian side. I would say no. It's assets out of Africa. It's gold, it's food supplies, it's oil from the Libyan oilfields. So those supply lines into Russia are now extremely well established. Notice that the Wagner Group, which had been Putin's private army, has now formally been incorporated into the Russian military as the Africa Corps, which, of course, has echoes of Rommel and World War II and the German presence in North Africa. So I think looking at the SPRO in that traditional sense, this is not the way to think about it.

Look at the map and see where are the actual supply lines for the world's greatest oil resources, and what's the relationship, for example, between Saudi and Russia? Turned out to be a lot closer than we thought. The Saudis are not happy with President Biden. And so, is there a relationship there? Yeah, much more so than anybody ever anticipated. So I think we have to be much more imaginative, creative about our thought process. Let me also say, to help us segue into this presidential race, did Russia and China pick the timing to begin this war in Ukraine *just in time* for the US presidential race? I would say there's no way that's random.

Ed D'Agostino: Interesting. So what is your view on who they would prefer to have as the next US president?

Pippa Malmgren: Well, I think the first question is, "How much havoc can we wreak in the US election process?" It's not that you're jockeying for one particular outcome, it's that you're jockeying to make a mess, right?

Ed D'Agostino: That makes sense.

Pippa Malmgren: It does make sense. "You mess with us, we'll mess with you." And look how many ways this is happening, right? We just saw, I think yesterday or day before yesterday, the arrest of someone in the EU Parliament for being a spy for the Chinese. This is another thing. We're in a cold war at the same time as these hot wars that I'm describing, and not long ago the British realized that the Chinese government was tracking the movement of all the cabinet members because their official cars had trackers embedded inside parts, meaning it had to have occurred in the factory, and they stripped down the automobile of one of the cabinet members and found it. So we're in a period of history where James Bond is alive and well. Except these days, James Bond doesn't operate with a handgun. James Bond operates with a USB. This is software wars. So yeah.

Ed D'Agostino: So let's talk about that a little bit. In terms of, call it what you want, surveillance, I think is probably a fair word. Years ago, I remember Danielle DiMartino Booth at the SIC saying she would never drive a Volvo, for reasons... because it's Chinese owned. TikTok, a bill advancing in Congress to force the sale of TikTok. I am in the camp that believes that TikTok is a tool for manipulation and surveillance. I have a lot of criticisms of social media in general, but TikTok, there's a geopolitical layer on top of TikTok. Do you share that concern, and have we just sort of opened up the door to world-class sophisticated espionage by letting these sorts of things happen to us?

Pippa Malmgren: Yeah. And I would guess that we're doing the same thing, by the way. We might not be doing it as visibly, but is there a kind of chip-based software warfare going on? Sure. That's right. So again, we come back to the head of the FBI talking about attacks on critical infrastructure. Instead of thinking about military as a place where you find people with uniforms and weapons, think of military as a place where you find people with laptops and very sophisticated software.

I recently wrote a piece about this on Substack, trying to help people shift their imagination. You could do vastly more damage now with software than hardware. This is a dramatic change in strategic security. But listen, with this, I would like to shift a little bit back to the question about the presidential race and who would they prefer. I do think there are some preferences, but let's be clear: The more geopolitics is going on, the more Americans are saying, "I don't think we should be

involved in all this,” especially young people.

And I have to say, across Europe, where I’ve been living for a very long time, the youth are also starting to get very uneasy as the leadership start to bring up words we haven’t heard in a long time, like *conscriptio*n. And this is making the young go, “Wait, wait, wait, wait, wait. What are we at war over? What are we going to go to war over? Do we really want to do this?”

So the question is, can we get through this period without actually having the war, or can we remain in the invisible war that’s very real, but the public doesn’t quite clock that it’s going on? Can we get to a resolution without the public really registering what the real dangers are? And I think the chances are yes, because everybody *does* want to cut a deal on Ukraine, which implies also a deal over Gaza, Israel, because Russia and China and Iran would back off supporting Hamas and the Houthis if there was an agreement on Ukraine—or rather, China and Russia would stop giving them so much support if there’s an agreement on Ukraine.

And, of course, China’s going to say, “We also want an agreement on Taiwan.” And again, if they can all come to something like, “Okay, we agree that there will be a negotiation process, but it won’t commence for, say, 25 years.” For China, that’s no big amount of time. For the West, that’s a long time. And you just kick the can into the future on that thing. That would solve a lot of problems.

And if we get that—and here’s maybe my key takeaway from today, because I’ve given you a lot of dark stuff about the realities of geopolitics, so it makes everybody nervous and scared. But here’s the thing: A peace dividend is rare and valuable. How many of us missed the fall of the Berlin Wall and the end of the Soviet Union, and the extraordinary peace dividend that ensued? I would say most people did not anticipate that that was going to happen.

This is another shot at that, and I would say in addition to whatever time you spend worrying about the downside, I want you to really think about, what is your strategy for the day that we get the headline in the *Washington Post*, “There’s a deal on Ukraine”?

Because that is the day the peace dividend will begin again, and markets will go up and all this innovation will go crazy, and suddenly inflation will be an issue again. And there’ll be a question about how to solve that. But I would bet that in the race between inflation and innovation, in a peace dividend, innovation wins. So I just want to leave you with, I think there’s a real upside that most of the market isn’t even thinking possible.

Ed D’Agostino: Great thoughts. Okay. Okay. I’m going to get into questions now. So these are going to be a little scattered.

Pippa Malmgren: Sure.

Ed D’Agostino: Let’s see here. Why are so many young male Chinese crossing the southern border?

Pippa Malmgren: Well, I think I answered that before. If the war is not over there, but it’s here, then it makes sense. And again, the head of the FBI is telling us that China is gearing up to do attacks on US critical infrastructure. Okay, what does that mean? Again, I’m not a conspiracy theorist. I mean, if you’d even asked me what a conspiracy theory was 10 years ago, I would’ve not even known. But it’s hard to look at some of the events that are occurring in the United States and saying it’s just random. We’ve seen some of the largest food production facilities in the country burn down at 3:00 in the morning. I think the largest one in Texas had 18,000 head of cattle—all gone. Is it possible that some of that is special forces from opponents saying, “Yep, you don’t want a deal on Ukraine; let’s make your life a little difficult”? Is it possible? I think, in a way, it’s almost I’ve had to turn it around and say, “The conspiracy is the refusal to ask the question.” The conspiracy is not to suggest there’s a possibility; it’s to suggest there’s no possibility.

Ed D'Agostino: Okay. Let's see. Sandor from Calgary asks, "I agree that the US can be a bully, but China takes cheating to the next level. In Canada, they set up police stations and infiltrate our government." And I think his question got cut off after that, but I think you get the gist.

Pippa Malmgren: Well, again, we're seeing this all over the world. This is not just in Canada or just in the US, and we're seeing lots of court cases where the US military is bringing charges against Chinese nationals for taking intellectual property out of the official US military facilities. We're seeing the arrest of lots of parliamentary assistants in Britain, like I mentioned, the one in the EU. Again, this is a world where...

Let me ask you this. Have you guys heard about SMERSH? Most people are like, "What the heck is SMERSH?"

Ed D'Agostino: No.

Pippa Malmgren: Okay. So SMERSH is an actual organization that gets referred to in the James Bond films as where the bad guys operate. But SMERSH was a real institution created by Stalin, and its purpose was to orchestrate assassinations of opponents abroad and to root out traitors domestically.

Well, President Putin has recently announced that SMERSH is fully reactivated. So what does that mean? That means we can expect assassinations and the rooting out of traitors. We certainly see the rooting out of traitors in Russia to the point that Putin's inner circle is getting very, very small because if you keep killing all the members of your inner circle, there isn't one anymore.

But this is not totally crazy. If he announces this, and then we start to see incidents that require the head of the FBI to say, "There are attacks on our critical infrastructure that we have to be prepared for and expect," something's up.

So I just think somebody needs to write this novel. And that was part of why John le Carré became so famous, as he helped the world understand what that invisible spy-led war look like, because otherwise nobody knew that it was going on. And I think it's very similar today.

Ed D'Agostino: Pippa, I wish we could go on for another hour. We've burned up all of our time. I thank you so much for being with us. And I just want to recap because I think so highly of it, your Substack, it's called *Dr. Pippa's Pen & Podcast*. I can't recommend it enough. Thank you so much for being with us.