

The New Battleground: NATO vs. SCO

While the small picture is Russia's invasion of Eastern Ukraine, the bigger picture is NATO (The West) vs. the Shanghai Cooperation Organisation (The East). The fear is not only that Russia makes a full scale invasion, but also that China uses the West's response as a playbook on how to engage on Taiwan. Thus, are we headed towards a shift of power from the West to the East? It opens up a can of worms...

The Shanghai Cooperation Organisation (SCO)

The SCO was created on 26th April 1996 with five member countries, China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. The agreement was focused on a reduction of military forces in border regions and opening up to a multipolar world, with particular focus of members not intervening in other countries' internal affairs. The first new member to be admitted was Uzbekistan on 15th June 2001, followed by India and Pakistan on 9th June 2017 (decided in July 2015). The SCO counts Belarus, Iran and Mongolia as Observer states and Armenia, Azerbaijan, Cambodia, Nepal, Sri Lanka and Turkey as Dialogue partners as well as Egypt, Qatar and Saudi Arabia as upcoming Dialogue partners as of 16/17th September 2021 – historically the upcoming Dialogue partners have signed memorandums to be official Dialogue partners within one year. On 17th September 2021, Iran has also applied for membership, which could take around two years to become official. The US applied for Observer status and was rejected in 2005 – Keep this in mind...

The SCO has had cooperation on security (sharing of intelligence and counterterrorism), military activities (joint military exercises) as well as economic cooperation (joint energy projects). In the aftermath of 9/11 and the following invasion of the US & NATO into Afghanistan, it was Uzbekistan that did not allow the US to make a temporary permission to use its Karshi-Khanabad airfield permanent¹. Uzbekistan was admitted to SCO a few months before. The SCO has seen the US invasion of Afghanistan as a threat to its own interests in the region with China, Russia and Uzbekistan being strongly against a permanent stationing of US troops.

1

<https://web.archive.org/web/20090529184633/http://www.hindu.com/2005/07/08/stories/2005070800711400.htm>

SCO Membership joiners by year

1996	• China, Kazakhstan, Kyrgystan, Russia, Tajikistan (Founding Members)
2001	• Uzbekistan (Member)
2004	• Mongolia (Observer)
2005	• India, Pakistan, Iran (Observer)
2010	• Belarus, Sri Lanka (Dialogue partner)
2012	• Afghanistan (Observer)
2013	• Turkey (Dialogue partner)
2015	• Cambodia (Dialogue partner) & Belarus becoming Observer
2016	• Azerbaijan, Nepal, Armenia (Dialogue partner)
2017	• India & Pakistan becoming Member
?	• Egypt, Qatar & Saudi Arabia (Dialogue partner) & Iran becoming Member

Source: SCO

The North Atlantic Treaty Organization (NATO)

NATO was formed on 4th April 1949 between member states France, UK, Belgium, Netherlands, Luxembourg (which together formed the Western Union (later EU) to counter German aggression), USA, Canada, Portugal, Italy, Norway, Denmark and Iceland in order to pursue multilateralism in Europe and to counter a potential attack by the Soviet Union (Russia). In 1952 rivals Greece and Turkey joined, followed by West Germany in 1955, which in turn led to the creation of the Warsaw Pact between the Soviet Union, Albania (left after Czechoslovakia invasion in 1968), Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania (left the Pact in 1964). Mongolia, China, North Korea and Vietnam all had Observer status, but China withdrew in the early 1960s after the Sino-Soviet split – which is important, as it happened due to China (Mao) not trusting USSR (Khrushchev) as China, amongst other things, felt the USSR should attack the US militarily and act more aggressively against the US. Ultimately, the USSR supported India in the 1962 Sino-Indian War and China feared a Soviet-US co-operation. Now, put this in context with the more recent China-Indian conflict in the very same Himalayan region, where Russia supplied the Indian army through emergency procurement². The relationship between Russia and the US could hence be very important once again...

Back to NATO, in 1982 Spain joined the alliance as the last new member before the fall of the Iron Curtain, which also dissolved the Warsaw Pact in 1989. Then in 1999, Czechia, Hungary and Poland joined NATO (after NATO invitation in 1997), followed by Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia in 2004 (the Vilnius group, which formed in May 2000 and lobbied for further NATO membership). Albania and Croatia then joined in 2009, followed by Montenegro in 2017 and North Macedonia in 2020.

² <https://www.businesstoday.in/latest/economy-politics/story/indian-air-force-plans-to-buy-12-sukhoi-21-mig-29s-amid-india-china-standoff-261526-2020-06-18>

NATO Membership joiners by year



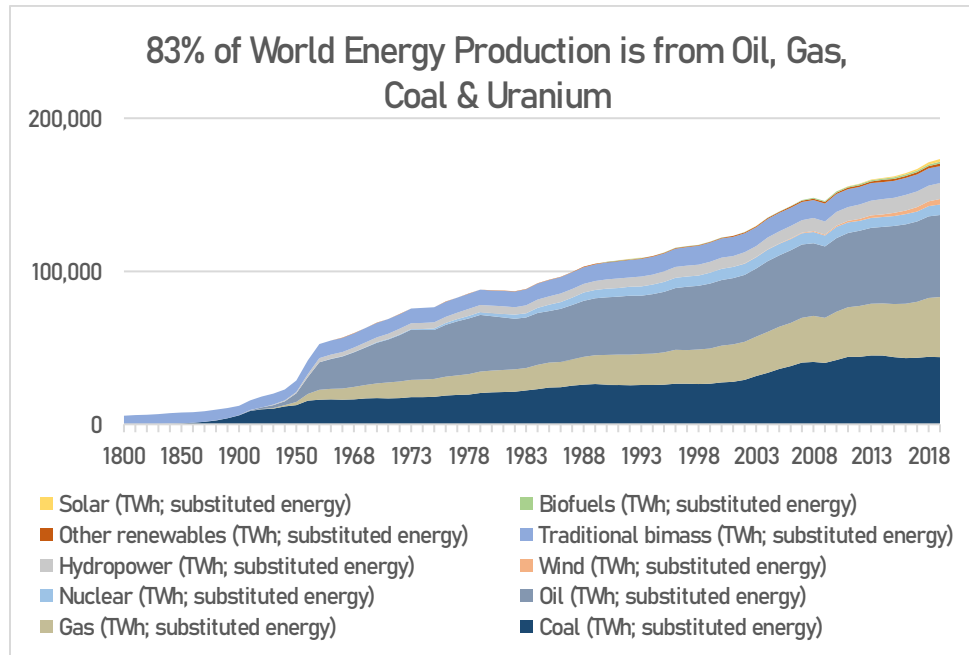
Source: NATO

Power of NATO vs. SCO

In his latest book, “The Changing World Order”, Ray Dalio defines the rise and fall of empires by 8 variables, namely Education, Innovation and Technology, Competitiveness, Military, Trade, Economic Output, Financial Center and Reserve FX Status. While there are shifts and differences in growth rates, as we talk about conflict, I want to focus here on energy, which is determining many of the 8 variables above.

Energy: NATO vs. SCO

In a [prior report](#) I have listed the top 10 producers of the main energy related natural resources oil, gas, coal and uranium, which together make up 83% of the world's energy production³. The SCO countries, including partners (Qatar and Saudi Arabia are key here), beat NATO countries, including Australia, not only in terms of energy production, but also in terms of energy reserves, with particular staggering beat in natural gas and somewhat uranium, which are seen as transitory energy sources towards renewables.



Source: Our World in Data

NATO vs. SCO Energy Production & Reserves

Energy	Region	Top 10 % of world production	Top 10 % of reserves
Oil	NATO	26%	13%
	SCO	35%	57%
Gas	NATO	35%	7%
	SCO	35%	75%
Coal	NATO	11%	41%
	SCO	65%	38%
Uranium	NATO	21%	33%
	SCO	59%	22%

Source: EIA, IEA, BP, IAEA, World-nuclear.org 2019/2020, (top 7 for coal)

Note: NATO includes Australia, SCO includes Partners & Venezuela

³ <https://ourworldindata.org/energy-production-consumption>

The “E” in ESG has not only led to inflation not seen in decades or even half-centuries, it has also diminished hopes of energy independence, as oil & gas shale drilling got banned in the UK recently⁴ and exploration got significantly reduced in the North Sea. As mentioned in the latest [quarterly report](#), with 80mio net births a year (mostly occurring in Emerging and Developing Countries) and energy consumption per person consistently rising, I have strong doubts about the shift away from fossil fuels – especially in light of history, where we never saw a decline in a specific energy source before. Renewables are also less energy dense and less reliable, which makes the shift even more dangerous, as the higher prices in fossil fuels will help SCO to gain power, not NATO... For this reason, the shift towards renewables can help in the long-term, but short-term the transition needs to be orderly, as wind farms take around 10 years to generate energy⁵.

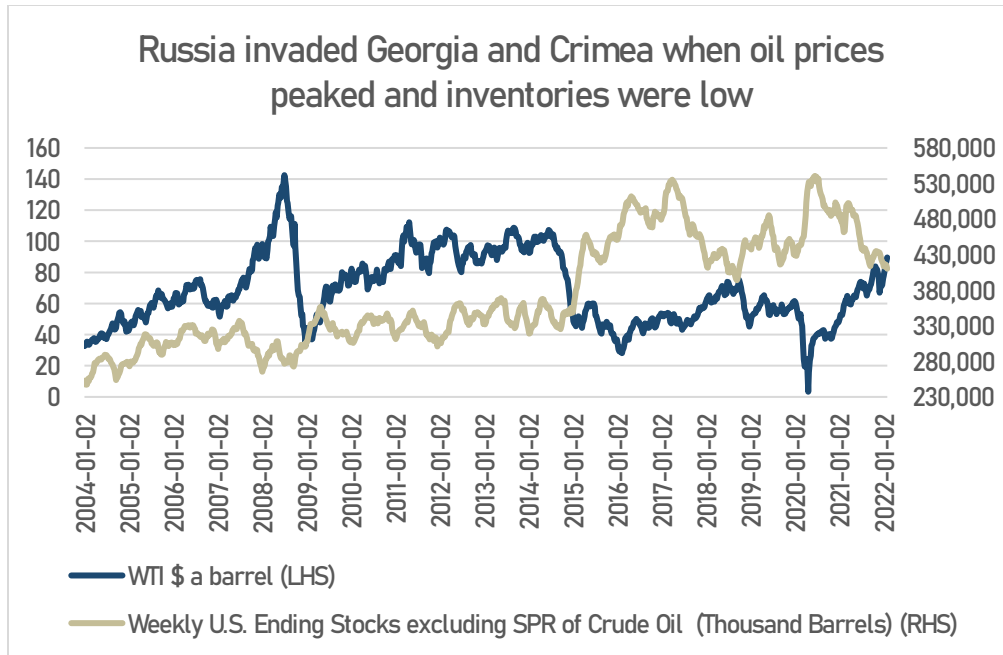
Correlations of Russian invasions

Russia has made three invasion over the last two decades, namely Georgia in August 2008, Crimea in February 2014 and now Ukraine in February 2022. While these three invasions all came either at the start of the Olympics (2008) or at the end of the Olympics (2014, 2022), oil prices have generally peaked at that time as well (July 2008 at \$143 a barrel, June 2014 at \$107 a barrel, now at around \$99 a barrel + record gas prices?). While in 2008 prices came down mostly due to a stronger US\$ and the Lehman shock, in 2014 it was mostly due to shale oil production and again a stronger US\$.

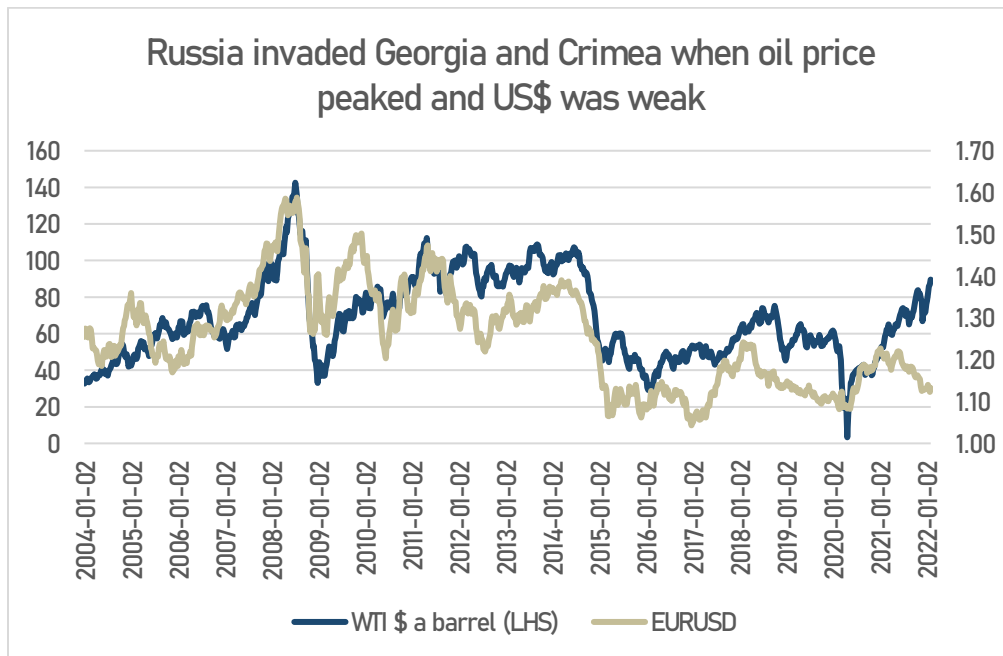
I continue to believe that the West (NATO) will have to eliminate the “E” in the ESG in order to bring the power play back into their hands. In the long-term, renewables could be the ultimate weapon against SCO, but with EVs and the value-chain of necessary metals and raw materials such as lithium and copper we might become more dependent on China due to their competitive cost advantage when it comes to solar, wind farms and rare earths... In markets, the key will not be how to enter this scenario (via oil & gas equities), but how to exit in light of past correlations – and I see US Treasuries as the ultimate investment from summer 2022/peak oil demand.

⁴ <https://cuadrillaresources.uk/government-orders-plugging-and-abandonment-of-britains-shale-wells-in-midst-of-energy-crisis/>

⁵ <https://www.aozorastep.com/Valuations,%20Geopolitics%20and%20Energy.pdf>



Source: FRED St. Louis, EIA



Source: FRED St. Louis, EIA



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