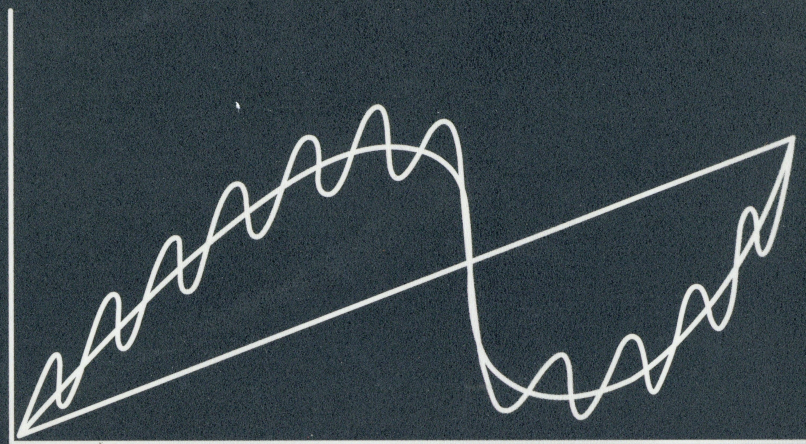


Principles for Dealing with  
**THE CHANGING  
WORLD ORDER**



**Why Nations  
Succeed and Fail**

**RAY DALIO**

AUTHOR OF THE INTERNATIONAL BESTSELLER *PRINCIPLES*  
AND FOUNDER OF THE WORLD'S LARGEST HEDGE FUND

**ALSO BY RAY DALIO**

*Principles: Life and Work*

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WORLD ORDER**

**RAY DALIO**

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SIMON &  
SCHUSTER

London New York Sydney Toronto New Delhi



First published in the United States by Avid Reader Press,  
an imprint of Simon & Schuster, Inc., 2021

First published in Great Britain by Simon & Schuster UK Ltd, 2021

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Simon & Schuster UK Ltd  
1st Floor  
222 Gray's Inn Road  
London WC1X 8HB

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A CIP catalogue record for this book is available from the British Library.

Interior design by Creative Kong.

Hardback ISBN: 978-1-4711-9669-0  
eBook ISBN: 978-1-4711-9670-6

Printed in the UK by Bell & Bain Ltd, Glasgow



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DAI

**To my grandchildren and those of their generation  
who will be participants in the continuation of  
this story: may the Force of Evolution be with you.**





## WITH APPRECIATION

To all who helped me learn, you each have my deep gratitude for giving me valuable bits and pieces that I could put together to make this book. If it wasn't for the conversations we had, the thoughts you shared in your writings, and the histories and statistics that you dug out from archives, this book would have not been possible. In some cases you are still with us and in some cases you are not, but you are all in my thoughts. I am especially grateful to Henry Kissinger, Wang Qishan, Graham Allison, Lee Kuan Yew, Liu He, Paul Volcker, Mario Draghi, Paul Kennedy, Richard N. Haass, Kevin Rudd, Steven Kryger, Bill Longfield, Neil Hannan, H. R. McMaster, Jiaming Zhu, Larry Summers, Niall Ferguson, Tom Friedman, Heng Swee Keat, George Yeo, Ian Bremmer, and Zhiwu Chen.

I also want to thank Peer Vries, Benjamin A. Elman, Pamela Kyle Crossley, Sybil Lai, James Zheng Gao, Yuen Yuen Ang, Macabe Keliher, David Porter, Victor Cunrui Xiong, David Cannadine, Patricia Clavin, Duncan Needham, Catherine Schenk, and Steven Pincus, among others for their valuable perspectives.

I am also very grateful to those who helped convert these concepts and writings into a book, which was nearly as much of an undertaking as coming up with them. I am grateful to Mark Kirby above all others for his unwavering devotion, talent, and patience. I am also grateful to Michael Kubin, Arthur Goldwag, and Phil Revzin, who all provided helpful comments on the manuscript, and to Jim Levine, my literary agent, and Jofie Ferrari-Adler, my editor, who helped create this book and get it out there.

Beyond these people were many others, including Gardner Davis, Udai Baisiwal, Jordan Nick, Michael Savarese, Jonathan Bost, Stephen McDonald, Elena Gonzalez Malloy, Khia Kurtenbach, Alasdair Donovan, Floris Holstege, Anser Kazi, Chris Edmonds, Julie Farnie, and Brian De Los Santos, who contributed significantly behind the scenes—as did all the people at Bridgewater, who together created the most amazing learning platform imaginable.



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# HOW TO READ THIS BOOK

- In writing this book I wrestled with whether to make it complete or concise and decided to try to make it both by bolding passages to create a quick-read version. **If you want to read the concise version, read what is in bold, and if you want more, it's all available to you.**
- I also wanted to convey some principles that are timeless and universal truths for dealing with reality well, which I denoted by ● *putting a red dot in front of them and italicizing.*
- For some subjects, I had embellishments that I thought would be interesting to some but not all readers, so I chose to present them as an addendum to the respective chapter. Feel free to read or skip as you like.
- At the back of this book, you can find a glossary that explains the abbreviations you see in some of the charts.
- Finally, to keep this book from becoming much too long, there is also a lot of supplemental material available at [economicprinciples.org](http://economicprinciples.org), including reference material, citations, more data on the indices, etc.

# INTRODUCTION

**T**he times ahead will be radically different from those we've experienced in our lifetimes, though similar to many times in history.

How do I know that? Because they always have been.

Over the last 50 or so years, in order to handle my responsibilities well, I have needed to understand the most important factors that go into making countries and their markets succeed and fail. I learned that to anticipate and handle situations that I had never faced before I needed to study as many analogous historical cases as possible to understand the mechanics of how they transpired. That gave me principles for dealing with them well.

**A few years ago, I observed the emergence of a number of big developments that hadn't happened before in my lifetime but had occurred numerous times in history.** Most importantly, I was seeing the confluence of huge debts and zero or near-zero interest rates that led to massive printing of money in the world's three major reserve currencies; big political and social conflicts within countries, especially the US, due to the largest wealth, political, and values gaps in roughly a century; and the rising of a new world power (China) to challenge the existing world power (the US) and the existing world order. The most recent analogous

time was the period from 1930 to 1945. This was very concerning to me.

**I knew that I couldn't really understand what was happening and deal with what would be coming at me unless I studied past analogous periods, which led to this study of the rises and declines of empires, their reserve currencies, and their markets. In other words, to develop an understanding of what is happening now and might happen over the next few years, I needed to study the mechanics behind similar cases in history—e.g., the 1930–45 period, the rise and fall of the Dutch and British empires, the rise and fall of Chinese dynasties, and others.<sup>1</sup>** I was in the midst of doing those studies when the COVID-19 pandemic struck, which was another one of those big events that never happened in my lifetime but had happened many times before. Past pandemics became a part of this study and showed me that surprising acts of nature—e.g., diseases, famines, and floods—need to be considered as possibilities because those surprising big acts of nature that rarely come along were by any measure even more impactful than the biggest depressions and wars.

**As I studied history, I saw that it typically transpires via relatively well-defined life cycles, like those of organisms, that evolve as each generation transitions to the next.** In fact, the history and the future of humanity can be seen as just the aggregate of all the individual life stories evolving through time. I saw these stories flow together as one all-encompassing story from the beginning of recorded history up to this moment, with the same things happening over and over again for basically the same reasons, while still evolving. **By seeing many interlinking cases evolve together, I could see the patterns and cause/effect relationships that govern them and could imagine the future based on what I learned. These events happened many**

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<sup>1</sup> To be clear, while I am describing these cycles of the past, I'm not one of those people who believes that what happened in the past will necessarily continue into the future without understanding the cause/effect mechanics that drive changes. My objective above all else is to have you join with me in looking at the cause/effect relationships and then to use that understanding to explore what might be coming at us and agree on principles to handle it in the best possible way.

**times throughout history and were parts of a cycle of rises and declines of empires and most aspects of empires**—e.g., of their education levels, their levels of productivity, their levels of trade with other countries, their militaries, their currencies and other markets, etc.

Each of these aspects or powers transpired in cycles, and they were all interrelated. For example, nations' levels of education affected their levels of productivity, which affected their levels of trade with other countries, which affected the levels of military strength required to protect trade routes, which together affected their currencies and other markets, which affected many other things. Their movements together made up the economic and political cycles that occurred over many years—e.g., a very successful empire or dynasty could have its cycle last 200 or 300 years. **All the empires and dynasties I studied rose and declined in a classic Big Cycle that has clear markers that allow us to see where we are in it.**

**This Big Cycle produces swings between 1) peaceful and prosperous periods of great creativity and productivity that raise living standards a lot and 2) depression, revolution, and war periods when there is a lot of fighting over wealth and power and a lot of destruction of wealth, life, and other things we cherish.** I saw that the peaceful/creative periods lasted much longer than the depression/revolution/war periods, typically by a ratio of about 5:1, so one could say that the depression/revolution/war periods were transition periods between the normally peaceful/creative periods.

While the peaceful/creative periods are certainly more enjoyable for most people, all these realities have their purposes for advancing evolution, so in the broader sense they are neither good nor bad. The depression/revolution/war periods produce a lot of destruction, but like cleansing storms, they also get rid of weaknesses and excesses (such as too much debt) and produce a new beginning in the form of a return to fundamentals on a sounder footing (albeit painfully). After the conflict is resolved, it is clear who has what power, and because most people desperately want peace, there is a resolution that produces new monetary, economic, and political systems—together,

a new world order—and fosters the next peaceful/creative period. Within this Big Cycle are other cycles. For example, there are long-term debt cycles that last about 100 years and short-term debt cycles that last about eight years. This short-term cycle also has within it longer, prosperous expansion periods that are interrupted by shorter recession periods, and within these cycles are shorter cycles, and so on.

**Before I get your head spinning with all this cycle stuff, the main thing I want to convey is that when the cycles align, the tectonic plates of history shift, and the lives of all people change in big ways.** These shifts will sometimes be terrible and sometimes terrific. They certainly will happen in the future, and most people will fail to anticipate them. In other words, ● *the swinging of conditions from one extreme to another in a cycle is the norm, not the exception.* It was a very rare country in a very rare century that didn't have at least one boom/harmonious/prosperous period and one depression/civil war/revolution period, so we should expect both. Yet, most people throughout history have thought (and still think today) that the future will look like a slightly modified version of the recent past. That is because ● *the really big boom periods and the really big bust periods, like many things, come along about once in a lifetime and so they are surprising unless one has studied the patterns of history over many generations.* Because the swings between great and terrible times tend to be far apart ● *the future we encounter is likely to be very different from what most people expect.*

For example, my dad and most of his peers who went through the Great Depression and World War II never imagined the post-war economic boom because it was more different from than similar to what they had experienced. I understand why, given those experiences, they wouldn't think of borrowing and putting their hard-earned savings into the stock market, so it's understandable that they missed out on profiting from the boom. Similarly, I understand why, decades later, those who only experienced debt-financed booms and never experienced depression and war would borrow a lot in order to speculate and would consider depression and war implausible. The same is true with money:

money used to be “hard” (i.e., linked to gold) after World War II until governments made money “soft” (i.e., fiat) to accommodate borrowing and prevent entities from going broke in the 1970s. As a result, most people at the moment of my writing this book believe that they should borrow more, even though borrowing and debt-financed booms have historically led to depressions and internal and external conflicts.

Understanding history in this way also raises questions whose answers provide us with valuable clues on what the future will be like. For example, throughout my life, the dollar has been the world’s reserve currency, monetary policy has been an effective tool for stimulating economies, and democracy and capitalism have been widely regarded as the superior political and economic systems. Anyone who studies history can see that **● no system of government, no economic system, no currency, and no empire lasts forever, yet almost everyone is surprised and ruined when they fail.** Naturally I asked myself how would I and the people I care about know when we are entering one of these depression/revolution/war periods and how would we know how to navigate them well. Because my professional responsibility is to preserve wealth regardless of the environment, I needed to develop an understanding and strategy that would have worked throughout history, including through these sorts of devastating times.

The purpose of this book is to pass along what I learned that has helped me and that I believe might help you. I present it for your consideration.

### HOW I LEARNED TO ANTICIPATE THE FUTURE BY STUDYING THE PAST

While it might seem odd that an investment manager who is required to make investment decisions on short time frames would pay so much attention to long-term history, through my experiences I have learned that I need this perspective. My approach isn’t an academic one created for scholarly purposes; it is a very practical one that I follow in order

to do my job well. The game I play requires me to understand what is likely to happen to economies better than the competition does, so I have spent roughly 50 years closely observing most major economies and their markets—as well as their political conditions, since those affect both—trying to understand what is happening well enough to bet on it. From my years of wrestling with the markets and trying to come up with principles for doing it well, I've learned that ● ***one's ability to anticipate and deal well with the future depends on one's understanding of the cause/effect relationships that make things change, and one's ability to understand these cause/effect relationships comes from studying how they have changed in the past.***

I arrived at this approach after the painful learning that the biggest mistakes in my career came from missing big market moves that hadn't happened in my lifetime but had happened many times before. The first of these big surprises for me came in 1971 when I was 22 years old and clerking on the floor of the New York Stock Exchange as a summer job. I loved it because it was a fast-pasted game of making and losing money played on a trading floor with people who liked to have a blast with each other—so much so that traders used to have water pistol fights right on the trading floor. I was engrossed in this game of watching the big developments in the world and betting on how they would drive the markets. Sometimes it could be dramatic.

On a Sunday night—August 15, 1971—President Richard Nixon announced that the US would renege on its promise to allow paper dollars to be turned in for gold. As I listened to Nixon speak, I realized that the US government had defaulted on a promise and that money as we knew it had ceased to exist. That couldn't be good, I thought. So on Monday morning I walked onto the floor of the exchange expecting pandemonium as stocks took a dive. There was pandemonium all right, but not the sort I expected. Instead of falling, the stock market jumped about 4 percent as the dollar plummeted. I was shocked. That's because I hadn't experienced a currency devaluation before. In the days that followed, I dug into history and saw that

there were many cases of currency devaluations that had had similar effects on stock markets. By studying further, I figured out why, and I learned something valuable that would help me many times in my future. It took a few more of those painful surprises to beat the realization into my head that I needed to understand all the big economic and market moves that had happened in the last 100-plus years and in all major countries.

In other words, if some big and important event had happened in the past (like the Great Depression), I couldn't say for sure that it wouldn't happen to me, so I had to figure out how it worked and be prepared to deal with it. Through my research I saw that there were many cases of the same types of things happening (e.g., depressions) and that by studying them just like a doctor studies many cases of a particular type of disease, I could gain a deeper understanding of how they work. I studied these qualitatively and quantitatively through my experiences, by speaking with preeminent experts, reading great books, and digging into statistics and archives with my great research team.

From that learning came a visualization of an archetypical sequence of how rises and declines in wealth and power typically happen. The archetype helps me see the cause/effect relationships that drive how these cases typically progress. With that archetypical template specified, I can study deviations from it to try to explain them. Then I put these mental models into algorithms both to monitor conditions relative to my archetypes and to help me make decisions based on them. This process helps me refine my understanding of the cause/effect relationships to the point where I can create decision-making rules—i.e., principles for dealing with my realities—in the form of “if/then” statements—i.e., if X happens, then make Y bet. Then I watch actual events transpire relative to that template and what we are expecting. I do these things in a very systematic way with my partners at Bridgewater Associates. If events are on track, we continue to bet on what typically comes next; if events start to deviate from our template, we try to understand why and course correct. This process

has helped me both understand the big cause/effect sequences that typically drive their progressions and gain a lot of humility. I do this continuously and will continue to do it until I die, so what you are reading is a work in progress.<sup>2</sup>

## THIS APPROACH AFFECTS HOW I SEE EVERYTHING

Seeing events in this way helped shift my perspective from being caught in the blizzard of things coming at me to stepping above them to see their patterns through time.<sup>3</sup> The more related things I could understand in this way, the more I could see how they influence each other—e.g., how the economic cycle works with the political one—and how they interact over longer periods of time.

**I believe that the reason people typically miss the big moments of evolution coming at them in life is because they experience only tiny pieces of what's happening. We are like ants preoccupied with our jobs of carrying crumbs in our very brief lifetimes instead of having a broader perspective of the big-picture patterns and cycles, the important interrelated things driving them, where we are within the cycles, and what's likely to transpire.** From gaining this perspective, I've come to believe that throughout history there are only

<sup>2</sup> For example, I have followed this approach for debt cycles because I've had to navigate many of them over the last 50 years and they are the most important force driving big shifts in economies and markets. If you are interested in my template for understanding big debt crises and seeing all the cases that make it up, you can get *Principles for Navigating Big Debt Crises* in free digital form at [economicprinciples.org](http://economicprinciples.org) or in print form for sale in bookstores or online. I've studied many big, important things (e.g., depressions, hyperinflation, wars, balance of payments crises, etc.) by following this approach, usually because I was compelled to understand unusual things that appeared to be germinating around me. It was that perspective that allowed Bridgewater to navigate the 2008 financial crisis well when others struggled.

<sup>3</sup> I approach just about everything this way. For example, in building and running my business, I had to understand the realities of how people think and learn principles for dealing with these realities well, which I did using this same approach. If you are interested in what I learned about such non-economic and non-market things, I conveyed it in my book *Principles: Life and Work*, which is free in an iOS/Android app called Principles in Action or is for sale in the usual bookstores.

a limited number of personality types<sup>4</sup> going down a limited number of paths, which lead them to encounter a limited number of situations to produce a limited number of stories that repeat over time. The only things that change are the clothes the characters are wearing, the languages they are speaking, and the technologies they're using.

### THIS STUDY AND HOW I CAME TO DO IT

**One study led to another, which led me to do this study.** More specifically:

- **Studying money and credit cycles throughout history made me aware of the long-term debt and capital markets cycle (which typically lasts about 50 to 100 years), which has led me to view what is happening now in a very different way than if I hadn't gained that perspective.** For example, interest rates hit 0 percent and central banks printed money and bought financial assets in response to the 2008 financial crisis. I had studied that happening in the 1930s, which helped me see how and why central bank actions of creating a lot of money and credit/debt 90 years ago pushed financial asset prices up, which widened the wealth gap and led to an era of populism and conflict. We are now seeing the same forces at play in the post-2008 period.
- In 2014, I wanted to forecast economic growth rates in a number of countries because they were relevant to our investment decisions. I used the same approach of studying many cases to find the drivers of growth and come up with timeless and universal indicators for anticipating countries' growth rates over 10-year periods. Through this process, I developed a deeper understanding of why some countries did well and others did

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<sup>4</sup> In my book *Principles: Life and Work*, I share my perspective on these different ways of thinking. I won't describe them here but will direct you there should you be interested.

poorly. I combined these indicators into gauges and equations that we used (and continue to use) to produce 10-year growth estimates across the 20 largest economies. Besides being helpful to us, I saw that this study could help economic policy makers because, by seeing these timeless and universal cause/effect relationships, they could know that if they changed X, it would have Y effect in the future. I also saw how these 10-year leading economic indicators (such as the quality of education and the level of indebtedness) were worsening for the US relative to big emerging countries such as China and India. This study is called “Productivity and Structural Reform: Why Countries Succeed and Fail, and What Should Be Done So Failing Countries Succeed.” (This study, and every other study mentioned here, is available for free at [economicprinciples.org](http://economicprinciples.org).)

- Soon after the Trump election in 2016 and with increases in populism in developed countries becoming more apparent, I began a study called “Populism: The Phenomenon.” That highlighted for me how gaps in wealth and values led to deep social and political conflicts in the 1930s that are similar to those that exist now. It also showed me how and why populists of the left and populists of the right are more nationalistic, militaristic, protectionist, and confrontational—and what such approaches led to. I saw how powerful the conflict between the economic/political left and right could become and the significant impact this conflict has on economies, markets, wealth, and power, which gave me a better understanding of events that were and still are transpiring.
- From doing these studies, and from observing numerous things that were happening around me, I saw that America was experiencing very large gaps in people’s economic conditions, which were obscured by looking only at economic averages. So I divided the economy into quintiles, looking at the top 20 percent of income earners, the next 20 percent, and so on down to the bottom 20 percent, and examined the

conditions of these populations individually. This resulted in two studies. In “Our Biggest Economic, Social, and Political Issue: The Two Economies—The Top 40% and the Bottom 60%,” I saw the dramatic differences in conditions between the “haves” and the “have-nots,” which helped me understand the greater polarity and populism I saw emerging. Those findings, as well as the close contact my wife and I were having through her philanthropic work with the reality of wealth and opportunity gaps in Connecticut communities and their schools, led to the research that became my study called “Why and How Capitalism Needs to Be Reformed.”

- At the same time, through my many years of international dealings in and research on other countries, I saw huge global economic and geopolitical shifts taking place, especially in China. **I have been going to China for 37 years and am lucky enough to have become well-acquainted with the thinking of top economic policy makers and a broad range of others. Having this direct contact has helped me see up close the reasoning behind their actions, which have produced remarkable advances.** It is a fact that these people have led China to become an effective competitor with the US in production, trade, technology, geopolitics, and world capital markets, so how they’ve done this must be examined and understood without bias.

**My most recent study, on which this book is based, came about because of my need to understand three big forces that hadn’t happened before in my lifetime and the questions they prompt:**

1. **The Long-Term Debt and Capital Markets Cycle: At no point in our lifetimes have interest rates been so low or negative on so much debt as they are as of this writing. The value of money and debt assets is being called into question by the supply-and-demand picture for them. In 2021, more than \$16 trillion of debt was at negative interest rates and**

**an unusually large amount of additional new debt will soon need to be sold to finance deficits.** This is happening at the same time as huge pension and healthcare obligations loom large on the horizon. These circumstances raised some interesting questions for me. Naturally I wondered why anyone would want to hold debt yielding a negative interest rate and how much lower interest rates could be pushed. I also wondered what will happen to economies and markets when they can't be pushed lower and how central banks could be stimulative when the next downturn inevitably comes. Would central banks print a lot more currency, causing its value to go down? What would happen if the currency that the debt is denominated in goes down while interest rates are so low? These questions in turn led me to ask what central banks would do if investors flee debt denominated in the world's major reserve currencies (i.e., the dollar, the euro, and the yen), which would be expected if the money that they are being paid back in is both depreciating in value and paying interest rates that are so low.

**A reserve currency is a currency that is accepted around the world for transactions and savings. The country that gets to print the world's primary currency (now the US, but as we'll see this has changed through history) is in a very powerful position, and debt that is denominated in the world's reserve currency (i.e., US dollar-denominated debt now) is the most fundamental building block for the world's capital markets and the world's economies.** It is also the case that all reserve currencies in the past have ceased to be reserve currencies, often coming to traumatic ends for the countries that enjoyed this special power. So I also began to wonder whether, when, and why the dollar will decline as the world's leading reserve currency, what might replace it, and how that would change the world as we know it.

- 2. The Internal Order and Disorder Cycle: Wealth, values, and political gaps are now larger than at any other point during**

**my lifetime.** By studying the 1930s and other prior eras when polarization was also high, I learned that which side wins out (i.e., left or right) will have very big impacts on economies and markets. So naturally I wondered what today's gaps will lead to. My examinations of history have taught me that ● ***when wealth and values gaps are large and there is an economic downturn, it is likely that there will be a lot of conflict about how to divide the pie.*** How will people and policy makers interact with each other when the next economic downturn arrives? I was especially concerned because of the limitations on central banks' abilities to cut interest rates adequately to stimulate the economy. In addition to these traditional tools being ineffective, printing money and buying financial assets (now called "quantitative easing") also widens the wealth gap because buying financial assets pushes up their prices, which benefits the wealthy who hold more financial assets than the poor do. How would that play out in the future?

3. **The External Order and Disorder Cycle: For the first time in my life, the United States is encountering a true rival power. (The Soviet Union was only a military rival, never a significant economic one.) China has become a rival power to the United States in most ways and is becoming strong in most ways at a faster rate.** If trends continue, China will be stronger than the United States in the most important ways that an empire becomes dominant. Or at the very least, it will be a worthy competitor. I have seen both countries up close for most of my life, and I now see how conflict is increasing fast, especially in the areas of trade, technology, geopolitics, capital, and economic/political/social ideologies. I can't help but wonder how these conflicts, and the changes in the world order that will result from them, will transpire in the years ahead and what effects that will have on us all.

To gain the perspective I needed about these factors and what their

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**FINANCIAL TIMES**

