

Letter n°72

Multilateralism at risk (4): Political stiffening at the risk of weakening economies.

"The defence of national interests does not stem from a dangerous nationalism or a selfish policy that should be denounced... it is simply the order of things, the imperative that is imposed on any government" Gérard Araud in Histoires diplomatiques.

Where do we stand? The global political situation is very divided, but the global economy is very intertwined. Everyone talks about deglobalisation, but international trade is growing and multinational companies are continuing to invest. The relative decline of the West in the face of India and other large emerging countries cannot be denied, but this does not mean that we should be negative about these countries, as they are preserving many assets, even as the Chinese model is running out of steam.

International trade is at a level barely below the peak of 2008 but governments are pushing for relocation and the question is whether political tensions can alter or destroy the economic ties companies have forged over decades? Governments, especially the US, are increasing sanctions against China, but Western firms continue to invest in it and the same is true of Chinese companies in their investments in the West. Nevertheless, mistrust is growing, national preference is playing an increasingly important role and the dynamics of globalisation are being weakened.

To better understand the forms of political stiffening, we will analyse from civil societies, political, geopolitical, monetary, demographic and military angles. From these different points, we will conclude by discarding the idea of a bipolar United States / China world and by favouring a reading grid with an increasingly multipolar world with the lasting pre-eminence of the United States in particular and the Western camp in general. Two overweight areas in our strategic allocation.

From the perspective of civil societies:

Between 1945 and the 1970s, there was the feeling of a uniformisation of the world due to the extension of industrial civilisation. The culmination may have been the one-dimensional man described by *Marcuse* in 1964 and this was the great concern of *Claude Lévi-Strauss* in *Race and History*.

But, paradoxically, we are witnessing a growing defence of cultural particularisms in an increasingly connected world.

In developed countries, populist identity withdrawals seem to be the corollary of globalisation and the unification of consumption patterns.

In emerging countries, the formerly dominated or colonised are challenging the universalism of human rights perceived as a Western invention even if, as *Henri Laurens* rightly notes, *"This recourse to so-called Islamic, Indian or Asian values should not hide that these are the new clothes of authoritarianism"*.

From a political perspective:

For a long time, we spoke exclusively of Europe, but in the 1790s, *Condorcet*, to take into account the Americans, replaced Europe with the West.

The great misunderstanding occurred during the fall of the USSR when, in the Fukuyama-Huntington debate, many then agreed with the former, but in the end, history proved the latter right.

Fukuyama noted then, "***The war of ideas is over... Liberal democracy has triumphed. The future will no longer be devoted to exciting quarrels of ideas but to the resolution of trivial technical and economic problems.***" Similarly, *Thomas Friedmann*, a columnist for the New York Times, said that the world is flat.

In contrast, according to *Samuel Huntington*, the world was multipolar, multi-civilisation, modernisation was not westernisation and did not lead to a universal civilisation. The West's claims to universalism clashed with other civilisations, notably China and Islam. In his view, Westerners had to accept the idea that their civilisation was "unique" but not "universal" and on this acceptance depended world peace. Far from preaching Western messianism, he pleaded for a withdrawal of the Western camp around its values. In the context of globalisation, he said, "***nation states remain the principal actors in world affairs***". The invasion of Afghanistan or Kuwait had not been triggered by bankers or multinationals, nor had they caused the collapse of the Soviet Union. ***For Samuel Huntington***, the era of ideologies succeeded those of civilisations.

- ***Weakened democracies:***

Far from Fukuyama's idyllic vision, the number of democracies has been declining for several years. In 2021, Tunisia and Burma became authoritarian regimes. In many countries, such as Hungary, Poland and Turkey, there have been many attacks on democracy, and authoritarian regimes like Belarus, Nicaragua and Afghanistan are hardening.

Within democracies, *Dani Rodrik* wrote, "***Democracy, national sovereignty and global economic integration are mutually incompatible... we can combine any two of the three, but never have all three simultaneously and in full.***" Today, it is impossible to ignore local issues. There has been a lowering of customs barriers, and therefore the opening of economic borders, but this has recently been accompanied by a strengthening of political borders.

- ***The populist surge:***

In opposition, populists are challenging the powers in place on some nationalist issues. Having come to power in Hungary and Poland, they have taken control of the media and the judiciary. Fortunately, they can be discredited by their incompetence, as in Austria, Finland and Italy with Salvini and Luca di Maio. With Trump and Bolsonaro defeated and Johnson out of the way, the populist surge is not contained, but is beaten back by a few failures. Ultimately, democracies can emerge stronger. We prefer Biden to Trump, Lula to Bolsonaro, and Sunak to Johnson.

- ***The adaptation of democracies:***

Democracy, an often threatened process, organises the sovereignty of the people around elections but is never perfect. We have seen this twice in the United States, where the president-elect had fewer votes than his opponent and where the unelected Supreme Court sometimes imposes its views.

Yesterday in the fight against communism, today against autocracies, Westerners, worried about the rise of populism at home, want to preserve their model.

However, the defence of Western values is not systematic and a lot of pragmatism or hypocrisy is observed. This is the famous "realpolitik". When the EU or the United States reduce their dependence on Russian energy, you cannot have two camps, democracies versus autocracies. Democracies buy more from Qatar or Venezuela and turn a blind eye to the nature of these regimes. In other words, democracies have the lesson of *Creon to Antigone*, "***The mind that is most rigid stumbles soonest***".

Similarly, Turkey has never feared European retaliation since the occupation of part of the island of Cyprus in 1974, the Kurds receive little assistance in their struggle against Turkish repression, and Christian Armenia is now threatened by Azerbaijan, a European gas supplier.

However, the universalism of rights, contested by a number of countries, starting with China, is indisputable and it is hard to see how autocrats can justify the repression of individual freedoms. On the contrary, these

concepts deserve to be extended to areas that have historically been poorly covered, such as minority rights, but also to the protection of the planet and to a better consideration of the legacy of future generations.

- ***The fragility of authoritarian regimes:***

China's official conception is meritocracy and some in the West were fascinated by this strong power, but China, obsessed by the stability of the power in place, closes the door to Western values linked to democracy, increases the controls on the population and the private sector at the risk of killing innovation and slides towards totalitarianism.

A remarkable trend is that social protest is no longer a Western monopoly and has spread to China as the promise of middle-class wealth recedes. Faced with a high youth unemployment rate of 20%, the government is unable to offer jobs to 11 million young graduates.

In short, it is true that liberal capitalism is in decline and authoritarian regimes are on the rise, but the time when weak democracies could be pitted against supposedly effective authoritarian regimes is over. There is a new context: technological warfare against a backdrop of slower growth, over-indebtedness and ageing. There is no reason to expect the West to be defeated, since China faces three handicaps.

From a geopolitical perspective:

In this war of positions, as we have shown in our previous three Letters, the United States has the advantage, Europe has strengths, and China has weaknesses to overcome.

In a strategic allocation, we will continue to overweight the United States, which, since the low point of March 2009, has recorded the best stock market performance by far; we consider the valuation of the European markets to be low in relation to their potential; we will maintain a neutral strategic opinion on China as long as ideology takes precedence over the liberalisation of the economy (tactically, we are buying into China to play the exit from the Covid crisis).

- ***The emancipation of emerging countries:***

A topical example of emancipation is Brazil in 2020 when, despite the proximity between Trump and Bolsonaro, the latter chose Huawei as a 5G operator.

In the emerging world, the West is discredited by repeated and often unsuccessful interventions in third world countries such as Iraq in 2003 or more recently in Libya... Emerging countries also reproach the West for not intervening in certain regional conflicts and also reject their lessons on democracy.

The autonomy of the emerging countries is greater than we think, even if in 2022 they had to face an aggravation of the difficulties with the quadruple effect of capital outflows, rate hikes, increases in the prices of raw materials, oil and cereals, and inflation.

The limits of US sanctions:

US sanctions do not deter India from buying Russian oil, China from acquiring Iranian oil or Saudi Arabia from signing contracts with China. However, if Saudi Arabia has pushed for an OPEC production cut, the observation of a decline in global demand and the desire to avoid a fall in the price of a barrel have prevailed over sympathy with Russia.

The proliferation of circumstantial alliances:

Many alliances are circumstantial. For example, Russia has recently shown itself to be close to Iran because it is interested in its drones and ballistic missiles, but Russia remains concerned not to alter its relations with Saudi Arabia and Israel, two enemies of Iran. Similarly, China signed a long-term agreement with Iran, an enemy of Saudi Arabia with which Xi strengthened ties in December.

In Iran, a country of 85 million people, the opposition between the younger generation and an ailing 84-year-old ayatollah, Ali Khamenei, has been going on for several months and the Revolutionary Guards are clinging

to power to avoid losing their financial privileges. The repression is fierce, hundreds of people have died and the economy is very weakened.

In Turkey, Erdogan manoeuvres on the international scene to play all the games. It is a member of NATO but sometimes buys Russian systems, signs with Rosatom, buys Russian gas but supplies drones to the Ukrainians.

In Southeast Asia, Indonesia is an indispensable partner of the West because it guards the Strait of Malacca, between Malaysia and Sumatra, a narrow passageway of €3.5 trillion of goods each year. But Indonesia, like other large emerging countries, is asserting its identity.

- *The West revived by the conflict in Ukraine:*

Between democracies and autocracies, the war in Ukraine will mark the victory of one of the two camps.

Russia does not have the same grip on the population as China, and Putin, since the invasion of Ukraine, has been weakened by multiple errors of analysis.

Perhaps Vladimir Putin, recently in Kherson, used the same strategy as Kutuzov against Napoleon, that is to give ground to gain time.

But Putin was wrong to ignore other lessons of history. Invading a country often strengthens the national sentiment of the population under attack. The French invasion of northern Italy under Charles VIII and Louis XII at the end of the 15th century had given rise to the sentiment of Italianness that *Machiavelli* spoke of, and later, the French occupation of Algeria had given rise to the Algerian national sentiment and it is the same for Ukraine in the face of Russia.

Putin was wrong to see the United States as a declining power. On the contrary, the Americans have increased their military budget from \$750 billion to \$825 billion for 2023 and this increase represents one year's worth of Russian military budget.

And in the rest of the Western camp, all countries are rearming. Japan has adopted a military budget of \$320 billion over 5 years and will increase its annual spending from 1% to 2% of GDP, Germany has a plan of €100 billion, and France is increasing its budget by 30%.

In short, Western deployment is multi-faceted: all Western countries have understood the need to help the Central Asian countries dependent on Russia to emancipate themselves from this tutelage. All are vigilant, keeping in mind the Cuban crisis when the Chinese took advantage of it to attack India on its borders. Today, it is a question of watching over Taiwan.

From a monetary perspective:

The weakening of the \$, after a strong appreciation against all currencies in 2022, benefits emerging countries as it reduces capital outflows, interest rate pressures and higher import prices.

In the long term, the question arises of the march towards de-dollarisation, with the US currency now accounting for only 59% of international reserves compared with 70% in 1999.

Certainly, China is developing transactions in Yuan, for example with Russia for the purchase of gas, but the process will be slow because the Chinese currency is still not convertible.

In short, the pre-eminence of the \$, the disproportion between the weight of the United States in world GDP (one quarter) and the weight of the \$ in international transactions will not disappear any time soon.

From a demographic perspective:

A contraction of the population is observed in many countries starting with Japan, China and South Korea. The economic impact is major, particularly in the real estate sector, since in Japan, for example, there are already 11 million empty homes for 54 million couples and, in 2038, a third of the homes could be without occupants.

These are all countries that are structurally faced with lower growth, zero or minimal productivity gains, and cannot justify an overweight in a strategic allocation.

From a military perspective:

Sadly, military spending is currently more important than spending on climate. This shows the world's current drift towards confrontation rather than cooperation, towards deglobalisation rather than the necessary coordination.

We are witnessing an increase in global military spending despite the crisis: in 2020, \$778 billion for the United States (40% of world spending), \$250 billion for China out of a world total of \$1.98 trillion, according to the SIPRI institute in Sweden, ahead of India \$73 billion, Russia \$62 billion, Great Britain \$59 billion and France \$53 billion.

Conclusion: *"Thinking of oneself both as a citizen of a nation and as a full member of the society of citizens of the world is the most sublime idea that man can have of his destination and that one cannot conceive without enthusiasm"* Kant in Project of Perpetual Peace.

In this geopolitical, political, monetary and militarily turbulent context, the United States remains the dominant power and, among the major countries, the only one, along with India, to record population growth.

In summary, whatever the angle taken in this Letter, the United States in particular, and democracies in general, retain the advantage and this should enlighten reflection on the strategic allocation of a portfolio.

Geneva, 31st January 2023

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