



Letter n°78

The "Global South": a myth?

"The most profound characteristic of a myth is the power which it wins over us, usually without our knowing." Denis de Rougemont in Love in the Western World.

Since the invasion of Ukraine and the unsuccessful attempt by the West to rally all countries of the world to impose sanctions against Russia, the use of the term "Global South" has become more widespread.

What does this term encompass? Is it relevant at all? Can we speak of the emerging world as a homogeneous entity? What strategy can China and Russia pursue?

These are some of the questions we will attempt to answer in this Letter 78, keeping in mind the idea expressed by Denis de Rougemont.

The limited relevance of the concept of the "Global South":

Apart from the shared vulnerabilities and resentment against colonial powers, the countries of the Global South have little in common. These are the three points that draw attention.

Resentment:

The term "Global South" is commonly used, but it refers only to resentment towards colonial powers that granted independence 60 to 80 years ago.

It provides an easy way to attribute the current failures of autocrats to distant interference.

Frustration and resentment are evident in this group of countries. It is easy to understand that comparing the amount of military aid given to Ukraine with the development aid given by OECD countries may illustrate the selfishness of developed countries.

However, there is a gap between resentment and rallying to China. Voting neutrally at the UN regarding the adoption of sanctions does not mean voting for the China-Russia duo.

If the countries of the Global South seek to break free from the West, it is not to become vassals of China. If these countries did not vote for sanctions, they will not stop trading with the West tomorrow, and they will remain ready to welcome any factory leaving China. Vietnam and India are examples of countries that Apple factories might move to.

Vulnerabilities:

- Debt:

Between 2008 and 2021, global non-financial debt rose from 1.8x GDP to 2.57x, and by early 2023, it was at 2.4x.

Any rate hike in the United States has an amplified effect in emerging countries because they fear capital outflows, currency depreciation and worsening inflation. Egypt, for example, faces a 10-year rate of nearly 25%.

As a result of the 9% currency depreciation against the \$ in 2022 and the rise in interest rates, the **IMF** finds 37 out of 69 "low-income" countries unable to repay their debts.

According to **UNCTAD**, the debt burden of the poorest countries averages 16% of their revenue, the highest percentage since 1998 and the equivalent of their cumulative spending on health and education. This debt burden could increase by more than \$800 billion by 2025. The worst case is Sri Lanka, where repayments in 2023 represent 75% of revenue. Zambia, Ghana, and Pakistan are also vulnerable.

Therefore, the majority of low-income countries are at risk, as during the 1998 Asian crisis when the Thai baht lost over half its value, the stock market dropped 60%, and GDP declined by 20%.

According to the **World Bank**, \$810 billion of debt in about 60 countries should be restructured.

- No catch-up for Africa:

Expected GDP growth is only 3.6%, a low figure compared to population growth. Africa's share of global industrial production is less than 2%. Public debt is problematic at 56% of GDP because between 2000 and 2020, African debt increased by fivefold to \$700 billion and China holds 12% of this debt.

Africa, driven by its demographics, a doubling of its population to 2.5 billion by 2050, rich in agricultural land and raw materials, attracts many investors, Europe still being the main one, but also China, India, the United States, Turkey, and Russia.

While the US/Africa summit in December 2022 brought together 50 of the 54 African states, it is not certain that the upcoming Russia-Africa summit in St. Petersburg in July will bring together about 15 of them.

The numerous divisions:

To say that the West is isolated or in the minority because 35 countries representing more than half of the world's population voted "neutral" on sanctions against Russia does not determine the existence of an anti-Western common front.

- The BRICS:

There is no homogeneity between these southern countries. To limit ourselves to the BRICS, similarities are difficult to find and China crushes the others. China has a GDP higher than the other members of the BRICS. If we add up the GDP of India, Russia, and Brazil, we are barely at 7% of the world's GDP.

Some of the BRICS live on material exports, others are massive importers.

- India and China:

The two countries have the same population, but China's GDP is at least 5 times larger and the two countries are at war along a common border of 3,500 km in Tibet, since China's annexation of Tibet in 1950. In 1962, India lost the war against China, but since then skirmishes have been frequent.

India and China are also opposed through Chinese support for Pakistan and through the Silk Roads in which India does not participate.

What is certain is that 1.4 billion Chinese cannot count on 1.4 billion Indians in a possible fight against the United States because India is part of the Quad, an alliance of the United States, Japan, and Australia against Chinese imperialism.

The Indian GDP has grown by 70% in the last 10 years, thanks to services. The country is quite open with trade representing 40% of GDP and foreign direct investment reaching 1.5% of GDP, but the stock market remains undeveloped with a market capitalization representing only a quarter of GDP.

Due to the weak development of industry, India's fundamental problem remains the weakness of job creation, although 200 million jobs should be created in the next 10 years. The technology sector alone cannot suffice since it employs only 5 million people.

Furthermore, there is still a great deficiency in public services, education, and health, failing infrastructure since public spending represents only 30% of GDP, and the informal workforce that represents 90% of workers.

- Divisions among other countries in the South:

Beyond the BRICS, what do Vietnam and Saudi Arabia have in common, or the poverty of Pakistan and the wealth of the Gulf countries, or Chile and Algeria...

The positioning of China: a deterioration of its image in the world.

From a political perspective:

China, just after India, represents 18% of the world's population. It started to take off after Deng Xiaoping took power in 1977 and gradually reduced the Communist Party's grip on private enterprise.

Since Xi's arrival in 2012, there has been a centralization of power and control over the private sector, particularly in tech and finance, and a strengthening of the Communist Party's presence in businesses. Approximately 70% of Chinese companies listed on the stock exchange are state-owned enterprises.

As a result of political tensions, economic sanctions, and structural growth slowdowns, foreign direct investment has tended to decrease. There is renewed emphasis on anti-corruption policies in the banking sector and in around thirty large state-owned companies such as PetroChina, Cnooc, and Sinopec.

From a local perspective:

- Slowdown in growth:

Far from the 10% annual growth during the catch-up years, growth today cannot exceed 5% and will soon fall to 3% per year.

The IMF maintains its forecast of 5.2% growth in 2023, but China's contribution to international growth, which was about one-third in the years before Covid, is not expected to exceed 20% in the coming years due to structural growth slowdown.

Thus, the prospect of surpassing the US GDP around 2030 is fading and may never happen.

- Desire for strategic independence:

Since the "Made in China 2025" plan was presented in 2015, China has been trying to gain strategic independence in a few key sectors such as aerospace, 5G, and AI. It has significantly reduced the weight of foreign components in its production, but it is increasingly blocked by Western countries when it tries to acquire companies in the West, and only spends 2.5% of its GDP on R&D compared to 3.4% for the Americans.

Therefore, it is forced to rely on its own internal strengths, but at the cost of lower productivity. However, in recent decades, China has been able to monopolise and copy Western patents with impunity.

- China's weaknesses:

One of China's problems is the weakness of domestic consumption, around 40% of GDP compared to nearly 80% in the United States. This is due to weak social protection, the cost of education, low pensions, and healthcare coverage (which together represent 8% of GDP compared to 20% in the euro zone), abundant precautionary savings, which make up one-third of gross income compared to 15% in the euro zone and much less in the United States.

These savings are concentrated in a crisis-ridden sector, real estate, because in recent years there has been overinvestment, with one-third of GDP dedicated to the construction sector in the broader sense because of high stocks of unsold homes.

China's share of global consumption remains half that of the United States, at 13% versus 27%!

Fundamentally, China is also suffering from a sharp increase in public debt since 2018, from 56% of GDP to 82%, an even worse slide in total debt, a rise in youth unemployment from 18.1% in February to 19.6% in March despite demographic decline. Growth is also hindered by overcapacity in various sectors other than real estate, and the country is still vulnerable due to its food dependence, which it would like to reduce.

From an international perspective:

- Offensives on all sides:

As an international industrial power, China consumes 1/4 of the world's energy, is the largest importer of oil, and consumes over 50% of the world's cement, copper, and steel production.

China is making widespread efforts to attract countries in the "Global South," and has succeeded in involving about 20 Latin American countries in the Belt and Road Initiative, in addition to some Asian and occasionally European countries.

In addition to this, China has been successful in persuading countries to sever diplomatic ties with Taiwan. Currently, only two Latin American countries, Paraguay and Guatemala, maintain diplomatic ties with Taipei. Globally, the number of countries that maintain diplomatic relations with Taiwan is less than a dozen.

However, trade with Latin America is far less than that with OECD countries. In 2022, trade with Brazil, the largest economy on the continent, was \$152 billion, nearly six times less than that with Europe alone.

China is also trying to expand the Shanghai Cooperation Organization (SCO), which was created in 2001, initially with Central Asian countries and Russia, and then with Pakistan and India in 2016 and Iran in 2021. Iran already conducts more than one-third of its trade with China. The Chinese government thus intends to build an alternative model to the West in a region that is home to half of the world's population.

Despite these undeniable breakthroughs, China's internationalization is not an easy path.

In Asia, China's relations with its neighbors in the South China Sea, the Philippines and Vietnam, and also to the west, with India, are strained.

- Regarding many emerging countries:

China has a good image as a southern country and an alternative to former colonizing powers, and as a significant investor. However, mistrust and even distrust have been creeping in. China, a major creditor to poor countries, with an estimated \$850 billion, is not yet ready to play by the rules of the Paris Club, accept capital losses, and would like to stick to rescheduling.

China is increasingly compelled to provide bailout loans to partner countries in difficulty, with \$185 billion in just the last five years, according to the Kiel Institute. Since 2020, Rhodium Group has identified nearly \$80 billion in renegotiated or defaulted loans, a figure that has increased significantly in recent years.

As a major creditor to countries in difficulty, China would like to change the rules so that the IMF and World Bank give up their status as privileged creditors and part of their claims. The World Bank refuses to do so for fear of seeing its rating downgraded and thus no longer being able to lend at low interest rates.

- In Africa:

The EU is a bigger investor than China, investing only in mining and energy, creating few jobs. China lends more than it invests and does not hesitate to twist the arms of countries in difficulty to repay the loans.

The initial success of the Belt and Road Initiative is tarnished by China's management of defaults. We think of the takeover of the port of Gwadar in Sri Lanka. We think of the cancellation of various projects decided by Malaysian President Mahathir in 2018. We think of the difficulties of African countries like Angola, with an external debt owed to China of more than 70% of its GDP.

Pragmatism, opportunism, and the desire to stay out of the Sino-American ideological confrontation dictate their behavior, but on average, and this is the essential point, they trade twice as much with the Western bloc as with the Sino-Russian bloc, and they buy a substantial portion of their arms from the Western bloc.

- With the European Union:

China is increasing its trade surplus with the EU every year. It has attempted to take control of European companies, such as the acquisition of Volvo by Geely in 2010 and Kuka in Germany in the robotics sector. It has tried to fracture the unity of the European Union by signing bilateral agreements, expanding the Belt and Road Initiative to Greece and Portugal, and through the 16+1 agreement in Eastern Europe, but to no avail.

Today, China's position, close to that of Russia, is driving Eastern European countries away from it. And the European Union has closed ranks against China.

As a result, Chinese investments in Europe fell to 10 billion euros in 2021. But China cannot afford to anger the EU, its largest trading partner with \$850 billion in trade in 2022. By comparison, trade with Russia is at \$190 billion, and since 2017, US imports from China have decreased by 20%, while European imports from China have increased by 70%.

Russia: an affected economy but a non-isolated country.

Putin claims the legacy of Yalta and spheres of influence. According to him, there are only four sovereign states – the United States, Russia, China, and India – and the others being vassals.

In the South, Russia wants to be perceived as the successor of the USSR, a country that aided liberation movements against colonialism and thus, since 2015, Putin has established links with many countries in the Middle East, Africa, and Latin America.

Even though sanctions have pushed Russia into a recession, the effectiveness of sanctions is limited by closer ties with other countries under sanctions, such as China and Iran, not to mention India, African countries, Brazil, and some Middle Eastern countries.

Reflecting the mixed effectiveness of sanctions, Russian oil production and exports have remained stable since the start of the conflict, but revenues are half what they used to be.

Russia hopes to rely on Chinese assistance. It sells 30% more oil, and trade in 2022 reached \$190 billion. However, rightly so, it is concerned about becoming a vassal of China.

At the UN podium, Russia tries to stigmatize the Western world, impose a new governance, but for the time being, without much success.

Conclusion: the notion of "Global South" is indeed a myth. *"Not to lament, not to detest, but to understand" Spinoza.*

In summary, in line with Spinoza's injunction, we can understand the resentment and bitterness of Southern countries towards the magnitude of aid given to Ukraine and the unconditional acceptance of refugees, while European borders are increasingly closed to Africa. However, this is not enough to constitute a concept of "Global South", and it does not mask the antagonisms and opportunism. Instead of the notion of a Global South, we prefer to recall the message of the 1955 Bandung Conference, "non-alignment", the desire of many of these countries to be equidistant from the West and China, in order to draw the best from both.

- *From a political perspective:* 4 remarks

The fact that a majority of the world's population does not support the sanctions imposed by the West against Russia may reflect resentment towards the West. The fact that they do not see the Russo-Ukrainian confrontation as a simple European conflict does not in any way indicate a commitment to China, but simply a desire for non-alignment. Fragmentation, opportunism, and emancipation are more appropriate terms for understanding the positioning of Southern countries.

In 2022, beyond the saber-rattling of Russia and China, it will be a year of failures for many autocrats. Failure in Ukraine, failure of China in managing the Covid crisis, failure of the mullahs in Iran to meet the legitimate expectations of the people for an improvement in the standard of living and greater freedom.

It is impossible to envisage the South as a bloc close to China. India, now the world's most populous country, is in direct opposition to China over Tibet and is an active member of the Quad alongside the United States, Japan, and Australia.

Undoubtedly, democracies are undermined by populism born of rising inequality, but inequality in China or Russia, in particular, is greater than in the West, and protest is suppressed there.

- *From an economic perspective:* 4 remarks

The catch-up of emerging countries has been halted by three shocks: Covid, energy/inflation, and banks. As *Nobel Prize-winning economist Esther Duflo noted, "richer countries spent 27% of their GDP on fiscal stimulus measure, poorer countries spent 2%."*

A financial crisis in emerging countries could escalate as it did in Asia in the 1990s.

The IMF rightly points out that the crystallization of the planet into rival economic blocs would be detrimental to growth and productivity.

China, like other countries, is seeing its population decline, but due to the nature of its regime, it cannot benefit from selective immigration, a wealth that the United States fully enjoys. Think of Indians at the helm of Alphabet and Microsoft and many others.

- *From a diplomatic perspective:*

A Russia without Putin, capable of making peace and withdrawing from Ukraine, would have many more ties to build with Europe than with China, a culturally different country that is potentially threatening in Siberia and economically too dominant vis-à-vis its Russian vassal.

- *From a financial markets perspective:*

We will maintain cautionary advice on emerging market bonds and equities, with the exception of the Persian Gulf monarchies. As expected, since the beginning of the year, countries in the Global South have recorded the most disappointing stock market performances.

Geneva, 1st May 2023

Bruno Desgardins

Bruno Desgardins
CIO
Switzerland



SingAlliance Pte Ltd

20 McCallum Street
#18-01 Tokio Marine Centre
Singapore 069046
T: +65 6303 5050
E: info@singalliance.com

SingAlliance (Switzerland) SA

16bis rue de Lausanne
1201 Geneve
Switzerland
T: +41 22 518 85 85
E: info.switzerland@singalliance.com

SingAlliance (Hong Kong) Ltd

Unit 904-907, 9/F Dah Sing Financial Centre
248 Queen's Road East
Wanchai, Hong Kong
T: +852 2639 3659
E: info.hongkong@singalliance.com

**SingAlliance Pte Ltd
(DIFC Representative Office)**

The Gate, Level 13 East, Office 10, DIFC
PO Box 121208 Dubai, UAE
T: +971 (0) 4 401 9158
E: info.dubai@singalliance.com



This document does not constitute an offer or a solicitation to purchase or subscribe financial instruments. Information contained in this document has been obtained from carefully selected public sources. Although every care has been taken to ensure that this information is accurate at the time of publication, no representation is made as to its accuracy, completeness, or truthfulness. Any opinion contained herein is subject to change at any time without notice. Past performance is not indicative of future results.