Letter n°151

Powers: Between Realities and Illusions

"True tact in audacity lies in knowing how far one can go too far." — Jean Cocteau, Le Rappel à l'ordre

Trump is disruptive, generates uncertainty, and unsettles the global balance. Let us hope, however, that his advisers remind him of Jean Cocteau's famous words.

In today's international competition among major powers, a new world is emerging. The unipolar world, characterized by American predominance and dominance, no longer exists. Yet China, despite being a rising power, is not in a position to replace the United States, while the other major actors neither possess the capacity nor the willingness to assume such a role.

Let us therefore examine the relative strengths and weaknesses of these major powers. We will leave aside Russia, which was analysed in Letter 150, and Japan, an undeniable industrial power, though one that shows little desire to project influence beyond its borders, except recently in warning China that any intervention in Taiwan would not be without consequences.

The Strengths of the Major Powers:

If one were to define each power succinctly, the United States emerges as a technological power, China as an industrial power, and Europe as a commercial power.

- ***The United States: A Technological Power:***

One only needs to observe the stock markets. Never has the dominance of a handful of American companies been so overwhelming. Despite ongoing wars, the S&P 500 has reached new record highs. The market capitalization of the top seven U.S. companies, amounting to USD 28.7 trillion, significantly exceeds both the combined capitalization of all developed-country stock markets and China's GDP, estimated at USD 20 trillion in 2025.

The net profit margins of these companies are at their highest level in the past 15 years. In the first quarter, earnings growth among technology companies reached an astonishing 48% (and even 60% for the top seven), while revenue growth reached 28%. Investments by the top four companies in artificial intelligence are expected to total USD 725 billion this year, representing a 77% increase year-on-year. These figures alone illustrate the strength of the United States in technology.

From a macroeconomic perspective, if one breaks down GDP growth — which reached 2% in the first quarter - approximately 1.5% was driven by investments in the technology sector.

- ***China: An Industrial Power:***

As early as 2015, China had identified a list of strategic sectors, a list which has since been expanded successfully. China now accounts for 32% of global industrial production, compared with just 5% at the end of the 1990s.

China also holds dominant positions in numerous high-growth industries, including:

- 90% of the global drone market

- 70–80% of rare earth production
- 50% of the robotics market
- 50% of shipbuilding required for global trade
- and 60% to 70% of the vitamin market

In addition, China produces:

- 50% of global steel production
- 40% of aluminium production

The above lists are by no means exhaustive and reflects a deliberate industrial strategy supported by:

- a domestic market of 1.4 billion people
- low borrowing costs,
- annual subsidies amounting to 2–3% of GDP
- an undervalued Yuan by roughly 20%

Deng Xiaoping had promoted a political class dominated by engineers, and the results are now clearly visible.

The crisis in the Middle East also presents an opportunity for China, as it has revived global interest in renewable energy - a sector largely dominated by Chinese companies:

- 80% of the global solar panel market
- 60% of battery production (42% by CATL alone)
- 70% of wind turbine production

Solar panel exports doubled in March compared to February, while 370,000 electric vehicles were exported in March alone, up 130% year-on-year.

- *Europe: A Commercial Power:*

Europe, supported by a market of 450 million consumers, remains the world's leading commercial power. In recent months, it has successfully signed free trade agreements with the Mercosur countries, Australia, and India.

In 2025, the European Union's trade surplus reached EUR 165 billion, while the EU accounted for 14% of global exports. It is worth recalling that the EU's trade surplus stood at EUR 265 billion in 2016, but has since declined due to what is viewed as unfair Chinese competition.

Nevertheless, Europe's trade surplus with the United States remains substantial, reaching EUR 200 billion in 2025.

The Weaknesses of the Major Powers:

If one were to characterize these powers differently, the United States appears as a power losing credibility, China as a power dependent on external demand, and Europe as a power that remains insufficiently influential.

- *The United States: A Power Losing Credibility:*

From a military perspective, the difficulties encountered in Iran raise questions about the necessity of maintaining a USD 950 billion military budget when adversaries can resist with budgets below USD 20 billion. The United States has consumed significant weapon inventories. During the first ten days of the conflict, for example, it used the equivalent of:

- 18 months of Patriot missile production
- five times the quantity of Tomahawk missiles produced in 2026

The United States is also perceived as a power losing credibility because, whereas it was previously viewed unanimously as the dominant global power, Trump's visit to China effectively symbolized parity between the two countries. Trump did not arrive as a victor, but rather seeking China's support in reopening the Strait of Hormuz - apparently without success.

American credibility has further weakened as its Asian partners — including Tokyo, Seoul, Canberra, Delhi, Manila, and Vietnam — increasingly express concerns regarding perceived shortcomings in U.S. support for Taiwan amid rising tensions with China, while also criticizing U.S. tariff policies.

From an industrial and commercial standpoint, the reindustrialization ambitions promoted by both Biden and Trump face obvious constraints:

- lack of infrastructure
- shortages of skilled labor
- declining competitiveness

In March, rather than improving, the U.S. goods trade deficit widened by 5%, reaching USD 97.9 billion in a single month. Since the end of 2023, apart from the creation of 1.8 million jobs in the healthcare sector, private sector employment has declined by 128,000 jobs.

From a financial perspective, the recent rise in long-term interest rates - with the 10-year Treasury yield climbing above 4.60%, compared with 3.9% before the conflict, serves as a reminder of the scale of U.S. public debt, which reached 124% of GDP in 2025, equivalent to USD 39 trillion.

This reflects:

- the uncontrolled expansion of debt driven by annual fiscal deficits exceeding 6% of GDP (7.6% this year),
- rising debt servicing costs amounting to 3.3% of GDP, or roughly USD 1 trillion, compared with 2% in 2000,
- and continued dependence on international savings, a model now increasingly fragile.

Europe alone holds approximately USD 3.8 trillion of U.S. debt, representing nearly 10% of total U.S. government debt. Historically, Europe and Japan recycled their excess savings into the United States partly in exchange for the American military umbrella — an arrangement increasingly questioned since Trump's election.

As for China, which holds approximately USD 1.2 trillion in U.S. Treasury securities, it is actively seeking to strengthen the international role of the Yuan.

- *China: A Power Dependent on External Demand:*

Although China appears to be benefiting from the current geopolitical environment, deep structural and cyclical difficulties remain.

Domestic Challenges, China's property crisis has persisted since 2018, with no immediate solution in sight. According to the Rhodium Group, construction activity has fallen from 16% of GDP in 2023 to 11% today. Real estate investment during the first four months of the year declined by 14% compared with the same period in 2024, while property sales by value fell by 15% over the same period.

As real estate remains the primary store of household wealth, consumer spending has been affected for years. Retail sales in April rose by only 0.2%, following a 1.7% increase in March.

Industrial Overcapacity, overcapacity is weighing on profit margins. Excess production capacity across many sectors is also generating deflationary pressures.

A striking example is the solar sector, despite its strong growth. Longi, the global market leader, continues to post losses of USD 280 million in the first quarter, compared with USD 210 million during the same period in 2025. JinkoSolar and Trina Solar are also loss-making because Chinese production capacity is estimated at twice global demand.

Demographic Decline, China's demographic decline is accelerating. By 2100, the population may fall to 600 million compared with 1.4 billion today.

Trade Dependence, as previously noted, China's growth relies heavily on exports. However, growing complaints from recipient countries cannot be ignored. According to a German institute, over the past 12 months, 52 of the world's 70 largest economies have raised concerns over what they view as unfair Chinese competition. Increasingly, countries are adopting protectionist measures, which could eventually hinder the growth of Chinese exports.

Geopolitical Concerns, although China seeks to present itself as a reasonable power that respects the international order - especially compared with the United States and Russia - many Asian countries, including the Philippines, Vietnam, and Taiwan, continue to express concerns regarding Chinese imperial ambitions, including:

- artificial island construction
- military intimidation
- and territorial pressure

- *Europe: A Power Often Difficult to Hear:*

The European Union now represents only 14% of global GDP, compared with 25% in 1980. In addition, since 2013, the number of deaths within the EU has exceeded births, while the median age now approaches 45.

Political Weaknesses, although EU countries spent USD 560 billion on defense in 2025 - double the level of ten years ago - European leaders remain politically weakened domestically.

- Germany's Chancellor has reached record levels of unpopularity after only one year in office.
- France's President, lacking both a parliamentary majority and fiscal flexibility, struggles to assert influence internationally.
- The British Prime Minister appears politically vulnerable following poor local election results.
- Italian Prime Minister Giorgia Meloni, despite her political longevity, has lost momentum after the failure of her justice referendum and has struggled to implement meaningful reforms despite receiving more than EUR 220 billion from the European recovery plan.
- Spanish Prime Minister Pedro Sánchez, lacking a parliamentary majority, has failed to pass a budget for three years, while Spain's strong GDP growth owes much to increased public spending, European recovery funds, and immigration inflows.

Mario Draghi has also criticized the EU's bureaucratic burden. Since 2019, the European Union has adopted 13,000 laws, compared with 3,500 federal legislative acts and 2,000 resolutions in the United States.

Industrial and Commercial Challenges, Europe is finally moving toward easing regulations to encourage the formation of larger industrial champions and improve competitiveness versus China and the United States. However, the EU trade deficit with China continues to worsen, reaching EUR 1 billion per day.

The EU seeks to compel China to:

- transfer technology,
- employ more European workers,
- and purchase more European components.

Between 2015 and 2023:

- Chinese exports to the EU increased from 2.2% of EU GDP to 3%,
- while European exports to China declined from 1.5% of GDP to 1%.

According to Coface, the production cost differential between European and Chinese manufacturing sectors widened by nearly 30 percentage points over the past three years, largely due to the weakness of the Chinese currency. Another weakness of Europe is that intra-European trade accounts for only 23% of GDP, compared with 35% between U.S. states. According to the ECB, barriers to free trade within the EU are equivalent to tariffs of:

- 100% for services,
- and 65% for goods.

Economic growth in the EU remains weak, with the OECD forecasting only 0.8% growth this year due to the blockade of the Strait of Hormuz. To stimulate growth, Europe would need to mobilize its EUR 30 trillion savings pool and stem the annual outflow of EUR 300 billion toward the United States, according to the Draghi report.

Conclusion: *"He who despairs of events is a coward, but he who hopes in the human condition is a fool." — Albert Camus, Carnets*

This quote remains highly relevant today.

In summary, Camus' observation remains highly relevant today. Across the world, American irresponsibility is increasingly criticized because the conflict with Iran has:

- disrupted maritime routes,
- increased the cost of raw material supplies,
- led to downward revisions in global growth,
- and aggravated the burden of global debt.

Nevertheless, the end of the unipolar world leaves an increasingly open global landscape with no clear winner. Each of the major powers faces deep structural challenges, while all must simultaneously manage three major transformations:

- the ecological transition,
- demographic aging and its consequences,
- and rising defense expenditures.

These three costly transformations further aggravate already problematic debt levels.

To these structural challenges are added three major sources of uncertainty:

Geopolitical Uncertainty, the comparison with the Peloponnesian War, Xi Jinping's reference to Thucydides during his meeting with Trump, and Graham Allison's 2019 book Destined for War are not necessarily convincing parallels. Athens, the rising power of the time, may resemble China today. However, in the Athens–Sparta rivalry, Athens represented democracy while Sparta embodied military power - making it difficult to place China in the role of Athens.

As for Taiwan, the military setbacks experienced by Russia in Ukraine and by the United States - supported by Israel - in Iran should give Beijing pause before considering any invasion of the island. Taiwan has only 23 million inhabitants, yet economically and technologically it is far stronger than either Ukraine or Iran:

- GDP of approximately USD 920 billion,
- compared with USD 200 billion for Ukraine,
- and USD 400 billion for Iran.

Moreover, China possesses neither Russia's military experience nor America's military arsenal. Even a simple blockade of Taiwan would trigger a severe global economic crisis, as the world would lose access to Taiwanese semiconductor exports.

Commercial Uncertainty, of the world's five strategic maritime chokepoints:

- Panama and indirectly Malacca remain under American influence,
- Hormuz and Djibouti fall under Iranian influence, and indirectly Chinese influence,
- while Taiwan remains, a strategic objective coveted by China.

According to the IMF, if the Strait of Hormuz were to remain closed through the end of the year, global growth next year could fall to just 2%.

Financial Uncertainty, since the outbreak of the conflict with Iran, rising interest-rate tensions have been observed globally. This reflects concerns surrounding global debt, which has reached approximately USD 350 trillion - more than three times global GDP. Which led to increased market worries about:

- additional government spending,
- widening fiscal deficits,
- and weaker economic growth.

Geneva, May 26, 2026

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