

The End of Globalization: Economics of a Neo-Kissingerian Multipolar World Order



'The forces of history (have moved) America from a position of dominance to one of leadership. Dominance reflects strength; leadership must be earned.' – (Henry Kissinger, 1994)

By: Sebastian Spio-Garbrah

Chief Africa Frontier Markets Analyst & Global Managing Director

Regardless of whether Mr Trump or Mrs Clinton wins the November 2016 elections, the US-led world order which they would swear the presidential oath to protect is crumbling. Neither candidate can restore the old US-centric geopolitical architecture. While under Mrs Clinton the US will maintain many of the trappings of that former lost position, and Mr Trump will strip the US of any pretensions to global hegemony, neither candidate can reverse the accelerated re-grouping of the world's nations into a heptagonal multipolar world order. Both Trump and Clinton, like their mentor and fellow New Yorker Henry Kissinger, are wide eyed realists.

With the US unipolar ending, its alter ego, US-led globalization, will also gradually recede, exposing the world economic order to a long protracted period of turbulence, trade wars, sanctions, regional rivalries and proxy conflicts. Even the world's de facto reserve currency, the US dollar, much like the Persian Daric, or Greek drachma, or Roman Talent or the British Pound, before it, is at long-term risk. Multinational corporations who have grown accustomed to the globalized 'flat earth' must now ready themselves for the hilly '7-multipolar peaks.'

Mikhail Gorbachev's magnanimous decision on November 9, 1989 to let the Berlin Wall fall peacefully without a single shot fired by Soviet forces unexpectedly commenced three decades of a US-led unipolar world order. Russia's sudden annexation of Crimea on March 17 2014, with the tacit acquiescence/non-condemnation of Brazil, India, China and South Africa and many other key global sub-regional powers including Israel at the United Nations effectively ended the US-led unipolar world order.

Replacing the stable, non-competitive, US-led liberal democratic, and capitalist, free trade order, will be an unstable, competitive, illiberal, quasi-democratic, protectionist, heptagonal, multipolar 19th century-type world order. The world is likely to re-group into seven regional clusters: **(1) The US-UK-EU-NATO, (2) Russia, (3) China, (4) India, (5) the African Union, (6) Brazil-Union of South American Nations, and (7) Pakistan-Saudi Arabia-Turkey-Egypt Sunni** Islamic states. Unable to fit neatly within any of these geopolitical groups are: Japan, Iran, North Korea/ South Korea and Israel, who will remain major independent outliers and epicenters of geopolitical tensions for years to come until each eventually integrates itself within one heptagonal cluster.

Geo-economic Net worth

	GDP	Total FX Reserves (\$USD mn)	Total Public Debt (billions)	GeoEconomic Net Worth (GDP + FX Reserves - Public Debt)
China	12.2trn	3,880,368	2,113,965	13.9trn
India	4.7trn	298,092	1,432,143	3.57trn
Russia	2.5trn	509,692	302,195	2.7trn
Brazil	2.3trn	358,816	1,581,055	1.08trn
South Africa	.57tr	49,708	157,449	.46trn
Germany	3.2trn	198,535	2,985,159	.42trn
Japan	4.5trn	1,266,851	11,644,510	(5.8trn)
USA	16trn	448,509	18,713,467	(2.26trn)
France	2.2trn	145,161	2,766,612	(.42trn)
UK	2.3trn	104,419	2,667,381	(.26trn)

Source: DaMina Advisors/ IMF/ OECD

Despite boasting a far superior GDP of \$16 trillion dollars and an annual military budget of over \$800 billion, (more than the next 10 countries combined), America's \$18 trillion public debt – greater than the sum of its total GDP plus foreign exchange reserves of \$448 billion, leaves it behind its geopolitical rivals –Russia, China and India with a negative geo-economic net worth of \$2.2 trillion. China with a GDP of \$12 trillion and forex reserves of almost \$4 trillion, with a public debt load of only \$2 trillion has the highest geo-economic net worth. Russia with a much lower GDP of \$2.5trillion, forex reserves of \$469 billion, (higher than the US), has a paltry debt load of \$302 billion. India with a GDP of \$4.7trillion, smaller forex reserves of 298 billion has a debt load of over 1.4 trillion. Other members of the US led western alliance do not fare much better. Germany's total forex reserves are less than Algeria's, Canada's is at the same level as Iraq's and less than Libya's, or the Philippines, and the UK and France together have a combined foreign exchange position less than Singapore's. This is the world of the 21st century. It is against this significantly diminished western geo-economic strength and heavy dependence on foreign creditors that Russia with China are challenging the current world order.

Beyond squandered financial resources, the past 25 years have also seen a retreat from geopolitical leadership within the rubric of the UN Security Council by the US, Europe and now Russia. Instead of safeguarding 'world peace and security' for all, each has often pursued their naked national interests in contravention of the spirit of the UN Charter. Russia's unilateral non-UN sanctioned annexation of Crimea followed a similar unilateral pattern by Europe in Kosovo and the US invasion of Iraq.

American leaders will now have to adapt to an emerging multipolar world order. A new world order where the word of the US will not be the final word on every major geopolitical matter, in every geographic zone of the world. From Venezuela to Syria to Zimbabwe to Libya to North Korea to Myanmar, these trends are already underway.

The emerging unstable heptagonal multipolar world order will be governed by intense mercantilist rivalries among seven key geopolitical and economic blocs. Mr Trump's mercantilist nationalism is simply a precursor of the kind of trade policy that will eventually emerge in many other OECD countries.

The emerging new multipolar world order will also affect multinational corporations in dramatic ways. The three decade rapid rises in profits at multinational corporations, which sent the Dow Jones Index soaring by over 520%, and the Nasdaq by over 840% from the fall of the Berlin Wall to the annexation of Crimea, is set to decline and reverse course in search of a new equilibrium. As the supportive underlying US-led unipolar global security and economic architecture crumbles, with new foreign growth markets foreclosed, international trade channels blocked by mercantilist sanctions and new non-tariff barriers erected, the sky high price-earnings equity multiples of major global companies will re-adjust downwards with important consequences on pensions, investments and the volume of securities traded on the global capital markets.

Crumbling US led Multipolar System to hit Corporate Profits Hard

	November 9, 1989 Fall of Berlin Wall	March 17, 2014 Russia annexation of Crimea	US Unipolar Financial Boom – ('89 – '14)
Nikkei 225	35657	14,277.67	-60%
FTSE 100	2,201.70	6,553.78	198%
Gold	394	1367.07	247%
S&P 500	336.57	1,858.83	452%
Brent Oil	19.21	106.99	457%
Dow Jones	2,603.69	16,247.22	524%
DAX 30	1426	9180.89	544%
Nasdaq	454.1	4,279.95	843%
*US GDP annual growth	7.7	3.4	119.5
* China GDP annual growth (\$USD)	11.7	11.6	344.8
Source: DaMina Advisors/Bloomberg			

The multipolar era will also likely see a nationalization of key privately owned multinational corporations who control critical natural resources and advanced technologies. Under pressure from nationalist politicians many of these stateless multinationals will be forced to become 'patriotic' and offload offshore assets in unfriendly countries. Other multinationals may simply abandon atrophying domestic markets and 'defect' to re-establish themselves fully in fast growing emerging foreign markets. Stock markets bourses will see a deluge in foreign equity de-listings as sanctioned companies 'go home,' trading volumes drop, cross-border deals, capital markets, PE ratios and profits dramatically shrink. In short, the next three decades of globalization is going to be very different from the preceding three. The global economy is about to be structurally 'teleported' back to the 19th century.

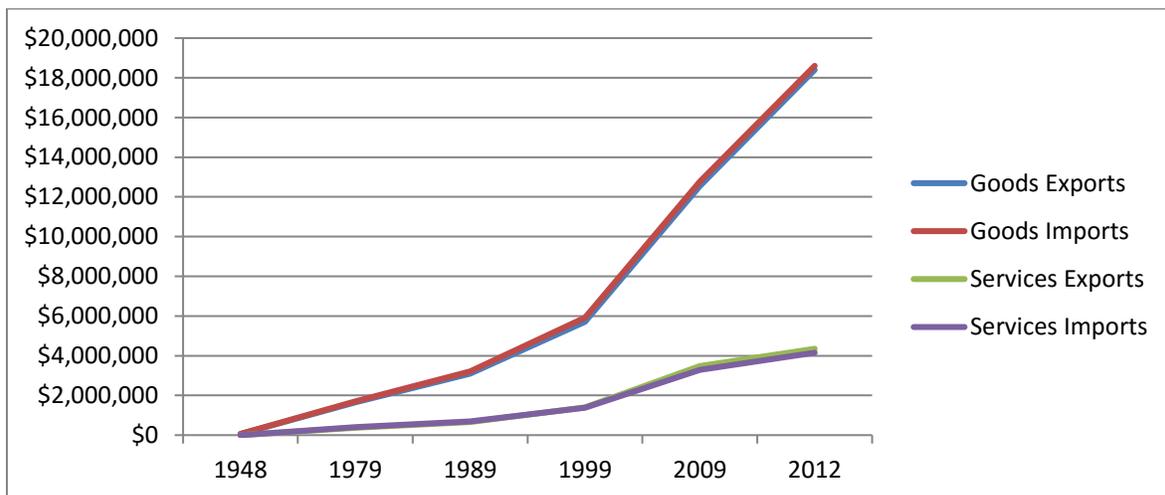
Stateless multinational corporations will in the coming years be forced to choose sides in the impending multipolar world order. To continue operating across several competing geopolitical terrains using the same system and protocols will no longer be a viable approach. With many multinational companies increasingly making most of their profits beyond the borders of their home territories, many will be forced by the new geopolitical order to

either become instruments of domestic foreign policy, or pull back from abroad, or defect to faster growing growth markets or sell foreign units to local partners. Valiant attempts to stay neutral will simply expose these companies to charges of domestic un-patriotism and boycotts of their products at home.

Global goods and services trade, especially in technology, critical mineral and natural resources, IT, financial services, legal services and other critical professional and hospitality services which have all flourished freely with few restrictions under globalization will see growth dramatic declines as competing regional and bilateral trade blocs become more insular and protectionist. Trade embargoes, natural resources hoarding and economic sanctions will be used by major global players to curb the free flow of goods and services. Natural resources - poor states like Japan will suffer, as well as technology dependent regions such as the Middle East, Africa and China. Global free trade, free capital markets and a global services sector which have accelerated markedly since the fall of the Berlin Wall in 1989 will now begin to ebb, as friction between regional and bilateral trade blocs, currency zones, economic sanctions and proxy wars reduce aggregate GDP growth, trade volumes, capital markets flows and general economic welfare.

Even inflation levels, which have ubiquitously fallen to historic lows because of the productivity gains of free trade with cheap exports from China and low labor costs depressing price spikes globally, will begin to reverse. Inflation levels are set to rise in the coming years as autarchic trading blocs, economic blockades and currency unions are set up by competing geopolitical blocs. In short, global cross-border, cross-continental trade will atrophy.

Over 500% increase in world trade since 1989



Source: WTO

The unipolar era, which began in 1989, with the collapse of the Soviet Union, saw the rise of the global multinational corporation, the emergence of the World Trade Organization to knock down trade barriers, the adoption of orthodox monetary and fiscal regimes, a choice for democracy and a massive growth in capital, goods and services markets, is at its end. There is however no guarantee that the new multipolar system that is set to replace the US unipolar order will have either the same values or share the same tastes for consumer led economic freedom. In short, multinational corporations, and their owners (including pension funds, mutual funds, hedge funds, venture capital funds, and government tax departments) who have profited handsomely from this status quo ante are likely facing a structural decline in long-term profitability.

Outside the emerging multilateral world order will uneasily lie Japan, Iran, North/South Korea and Israel. These five countries cannot be easily integrated within any current major regional hegemonic group. Japan, culturally

and historically, can never subordinate itself to China, the regional hegemon of Asia, and yet it cannot continue to fit neatly under the US-UK-EU-NATO umbrella for geographic reasons either. To continue defending Japan, the US will need to keep a major military presence in Asia, an anathema to a rising China. And yet as Henry Kissinger and Richard Nixon acutely grasped, the US needs China to remain neutral between it and Russia, because if the two land-based hegemon combine their geopolitical policies, the global geopolitical balance will tilt decidedly against the US. The US will thus ultimately be forced to cut Japan loose much like it did Taiwan in 1974 or Hong Kong in 1997. Mr Trump has suggested as much during the present campaign. Mrs Clinton's 'pivot to Asia' policy assumes as much, if even unstated.

Japan may yet become the first country to provoke a major conflict in this new multipolar era unless it acquires nuclear weapons, (to defend itself against China) or makes geopolitical peace with China. Ultimately, rational economic calculations may prevail and the US may withdraw its security guarantee to Japan so the country can survive independently within the shadow of China much like Finland (in the shadow of Russia) or Switzerland (within the EU shadow). Similar long term economic constraints will ultimately cause the US to effectively abandon the defense of South Korea and Taiwan to China, much like how Britain transferred the defense of Greece and Turkey to the US after WW II. The Koreas will ultimately be united, much like the two Germany's, probably with China's help to serve as a check on a reinvigorated Japan. Thus the question of Japan's geopolitical future, much like the question of Germany after WW I, remains the most critical geopolitical issue of 21st century.

Israel and Iran, just like Japan, cannot be geopolitically integrated into the regional nationalist hegemon, Pakistan-Saudi Arabia-Turkey and Egypt. Left lonely and vulnerable by the US pivot to Asia, Iran and Israel will eventually be forced to find some geopolitical accommodation with each other – especially if Iran becomes a nuclear power just like Israel. Ironically, Iran's attainment of a nuclear weapon may remove its national insecurity, foreign policy radicalism and elite inferiority complexes and push it to forge an alliance with Israel and dump support for Syria, Hezbollah and Hamas. Israel and cosmopolitan Shia Iran have more socio-cultural commonalities than Israel and Sunni Wahhabist Saudi Arabia. As India and Pakistan or the USSR and USA have shown, nuclear weapons rather than being demonic weapons can often bring geopolitical stability and peaceful relations between two intensely competitive rival states. Israel and Iran may one day together form an independent geopolitical cluster of their own to rival the Arab-Sunni geopolitical peak of Pakistan-Saudi Arabia-Turkey and Egypt.

Beyond the Outliers, the other multipolar peaks are obvious - (1) The US-UK-EU-NATO, (2) Russia, (3) China, (4) India, (5) the African Union, (5) Brazil-Union of South American Nations and (6) Pakistan-Saudi Arabia-Turkey-Egypt.

The current declining US influence over key Latin-American hemisphere nations will dramatically accelerate under Mr Trump. And yet without renewed geopolitical influence by the US over Latin America, the US economy may not long survive the oncoming mercantilist economic multipolar world order. Indeed, the emerging Brazil led Union of South American States (USAN) may rise within the century to challenge American geopolitical influence in the western hemisphere with Mexico leaving NAFTA and re-joining the Brazil led group. With US Latinos beginning to form a major voting majority in the southern states bordering Mexico, and very supportive of Mexico's southern geopolitical integration with other Latin speaking nations and rather than a northern integration with Canada and the US under NAFTA, the US geopolitical position in coming decades within the western hemisphere could be imperiled. While Mr Trump has denounced NAFTA, Mrs Clinton has distanced herself from the TPP trade deal. Both Trump and Clinton are neo-mercantilist Kissingerians.

Despite having transformed its economic customs union into a political entity with all the paraphernalia of statehood, the European Union still largely depends on NATO for its security. Boggled down by a large and costly welfare state, declining demographics and the EU bureaucratic inertia, Europe's geopolitical relevance in the 21st

century will continue to diminish. With the US under either Mr Trump or Mrs Clinton focused on domestic priorities, natural historical cleavages and rivalries within Europe will emerge and create further balkanization..

The African Union and the Brazil-led Union of South American States will be the last poles to fully emerge within the new multipolar system. While the countries in both regions share a common bond of colonialism and are determined to unite and chart their own independent course, logistical and economic limitations will keep both regions from exerting any serious global geopolitical force for most of the 21st century. However both blocs will become increasingly jealous of their political independence and territorial integrity and therefore limit European and American military adventurism on their respective continents. The US and the European powers are unlikely to get any future support for any major military action on either continent. African support for US/EU bombing of Libya is unlikely to be repeated any time soon.

By 2030, among the 7 multipolar peaks, India is set to surpass China in population and economic growth. Nigeria (if it survives as a single federal state), will come to dominate the African Union, with the center of African geopolitical gravity shifting westward from South Africa to Nigeria, even as global economic power shifts eastwards within Africa from the west African nations to the East African ones. This asymmetry will in the long run see Nigeria's own economic and geopolitical power decrease with Ethiopia and other East African nations rising to re-claim leadership of the AU. India's geopolitical power will however be challenged by Muslim Indonesia and Bangladesh, possessing the fourth and eighth largest populations on earth, by 2050. They will join the existing Pakistan-Saudi Arabia-Egypt Sunni Muslim peak to counter balance Hindu dominated India, thereby intensifying geopolitical tensions in Southeast Asia and moving the locus of potential conflict into the Indian Ocean and away from the Pacific basin after Japan and Korea's geopolitical locations have been resolved.

As recent difficulties in key US bi-lateral relations with hitherto close allies such as Israel, Japan, Saudi Arabia, Egypt, Turkey, Afghanistan, the UK, South Africa, Mexico and Iraq show, the US is set to meet very serious challenges trying to hold onto its slipped unipolar status. While the US engages in the ultimately unsuccessful and defense of wealthy nations in Asia and Europe – its emerging geopolitical rivals – Russia, Brazil, India, China, and many other sub-regional ones continue to amass enormous foreign exchange reserves and revamp their militaries.

In the long run either the US led Organization of American States (OAS) or the USAN will become defunct because major South American countries cannot continue to easily belong to both. One organization will gain ascendancy over the other. Much like how Germany's national interests are now firmly contained and enveloped within the Brussels-based EU, a future US integration within a Pan-American continental organization under the auspices of a multi-polar world may be the only realistic way for the US to prevent foreign powers such as China, India or Russia from setting up permanent military bases in the western hemisphere through bilateral treaties with any of the South American nations.

Thus, from Latin America to the Middle East, from Africa to south East Asia and from North Asia to Eastern Europe, the US faces a multi-pronged, multi-decade systemic challenge to its overstretched unipolar geopolitical posture. With the US pledged to defend Taiwan, Philippines and Japan from China; South Korea from North Korea; Australia from China; Canada, the entire western hemisphere and all of continental Europe ; Rwanda from another genocide; Saudi Arabia from Iran; Qatar from Saudi Arabia; Kuwait from Iran and Iraq; Israel from all the Arab states; Turkey and all the European NATO nations from all their enemies; any credible threat to any of these countries will expose the shakiness of these US defense guarantees.

While the US has in the past sought to 'contain' Russia and China, the list of major regional powers tacitly supporting Russia to upturn the current US unipolar world order indicates that it is rather the US who is now being contained. Kennan's containment policy has now come full circle – to contain America. As Hannah Arendt said of 'authority,' its loss is more evident, than its gain.

In truth the American Republic was never designed to become a major global geopolitical power. As America's first President George Washington presciently forecasted,

“Europe has a set of primary interests, which to us have none, or a very remote relation. Hence she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. Hence therefore it must be unwise in us to implicate ourselves, by artificial ties, in the ordinary vicissitudes of her politics, or the ordinary combinations and collisions of her friendships, or enmities.”

Alexis de Tocqueville, America's best political psychologist, gave an even better reason why the US was not well suited for global unipolar leadership.

“Foreign policy requires the use of almost none of the qualities that belong to democracy and, on the contrary, demands the development of nearly all those qualities that it lacks. Democracy favors the growth of the internal resources of the State; it spreads comfort, develops public spirit; strengthens respect for law in the different classes of society; all things that have only an indirect influence on the position of a people vis-à-vis another. But only with difficulty can democracy coordinate the details of a great undertaking, settle on one plan and then follow it stubbornly across all obstacles. It is little capable of devising measures in secret and patiently awaiting their result. These are the qualities that belong most particularly to a man or to an aristocracy. The inclination that leads democracy in policy matters to obey sentiments rather than reasoning, and to abandon a long developed plan for the satisfaction of a momentary passion, clearly revealed itself in America when the French Revolution broke out. The simplest insights of reason would suffice then, as today, to make the Americans understand that it was not in their interest to get engaged in the struggle that was going to cover Europe in blood, and from which the United States could suffer no harm.”

DaMina Advisors is a preeminent Africa-focused independent frontier markets risk research, due diligence and Africa M&A transactions consulting and strategic advisory firm. DaMina Advisors is legally registered and has offices in the US, Canada, The UK and Ghana.

Follow us on Twitter  @DaMina_Advisors

Contact: Stephanie Dei
VP, Corporate Affairs & Media
Stephanie@daminaadvisors.com
Tel: +1 647 808 9671

EUROPE

3 Abercorn Mansions
17 Abercorn Place
London NW8 9DY

AFRICA

10 Abokobi Road
East Cantonments, Accra
Ghana, West Africa

AMERICAS

55 Fifth Ave,
Suite 1702, NY 10003
New York

GLOBAL HQ

103 The Queensway, Suite 714
Toronto, ON, M6S 5B3

Tel: +1 647 808 9671/ +1 416 276 1997

E-mail: info@daminaadvisors.com