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Cryptos: The Geopolitics of the post-$dollar chaos

*'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)*

"Leadership is an elusive concept, hard to describe and impossible to prescribe. It is more evident in its absence." Sen. P. Dodson

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Many young investors see the rise of bitcoin and the other popular crypto currencies as a novel investment phenomenon. In contrast, older investors tend to see cryptos as the ultimate consequences of nearly three decades of unconstrained money printing by major central banks in support of sagging economic growth, demographic decline, unfunded ambitious social programs and reckless tax cuts. These inter generational disputes notwithstanding, the rise of cryptocurrencies signals a historic geopolitical event – the dethronement of the US dollar as the world's reserve currency.

By 2030, if not as soon as 2025, a mere four years away, the US dollar would have probably ceased to be the world's global reserve currency, if current geo-economic shifts continue unabated. By 2025 China will indisputably be the world's largest economy. With economic dominance ultimately comes reserve currency status. However much like happened previously in history, the demise of a global reserve currency will not immediately see the rise of the Chinese Yuan as a reserve currency – but rather a period of monetary chaos with various competing currencies. The US dollar, much like the Persian Daric, Greek drachma, Roman Talent and British Pound, before it, is poised to be replaced.

Initially replacing the dollar during this chaotic transition will not be the Chinese Yuan but Gold, Bitcoin and the IMF's SDR together with an assortment of other competing dominant regional currencies such as – the Yuan, US dollar, Euro, Rupee, Yen and Ruble. While these dominant regional currencies will form the basis of much of global trade, others such as the British Pound, Indonesian Rupiah, Nigerian Naira, CFA Franc, Saudi Riyal, Brazilian Real, Turkish Lira and Egyptian Pound will also likely co-exist and become more widely used beyond their national borders before ultimately a new global central banks/BIS/IMF backed digital global reserve currency emerges.

With the US and many major nations poised to experience long bouts of hyperinflation, stagflation, followed by deflationary spirals, collapsing demographics, international political schisms and even regional wars in the post-Corona crisis period, the centrality of alternative currencies will become even more pronounced.

Regardless of whether Mr Trump returns in 2024, or Mr Biden or Mrs Harris wins the November 2024 US elections – the era of a US dominated global order has largely ended. The rise of Bitcoin and the Cryptos is the surest indication that young people – who represent the future, do not see the US dollar as their preferred future store of value. Neither Trump, Biden, Harris or any other American leader can restore the post 1989 US-centric geopolitical unipolar architecture.

With the US unipolar ending, its alter ego, US-led globalization, will also recede, exposing the world economic order to a long period of protracted geopolitics turbulence, trade wars, sanctions, regional rivalries, proxy military conflicts and monetary chaos. US-centric multinational corporations who have grown accustomed to the much vaunted 'flat earth' must now ready themselves for the hilly 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 annexation of Crimea on March 17 2014, which was not condemned by Brazil, India, China and South Africa and many other key global sub-regional powers including Israel at the United Nations effectively began the end 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, multipolar 19th century-type world order. The world is likely to re-group into seven regional power blocs: **China, the US & UK, the EU, Russia, India, the African Union, Brazil/Union of South American Nations, and Pakistan-Saudi Arabia-Turkey-Egypt Sunni Islamic states**. The currencies of these regional hegemonic groups will compete to replace the US dollar in the years ahead.

Unable to fit neatly within any of these key geopolitical groups will be: **Japan**, **Iran**, **North Korea, Taiwan** and **Israel**, who will remain the major independent outliers and key epicentres of geopolitical conflicts in the years ahead.

Underpinning the ongoing loss of global currency reserve status by the US dollar is 30 years of UN Security Council dysfunction. Instead of safeguarding 'world peace and security' for all nations, each veto member country have 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 the EU in Kosovo and the US invasion of Iraq. American business 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 and economic matter. From Venezuela to Syria, from Zimbabwe to Libya, from North Korea to Myanmar and Nagorno-Karabakh, the geopolitical impotence of the US a global unipower and reserve currency hegemon has been on display for all to see for some time now.

The emerging unstable multipolar world order will be governed by intense mercantilist rivalries among the key geopolitical and economic blocs. Mr Trump's mercantilist nationalism was simply a precursor of the kind of trade policy that will eventually emerge in many other OECD countries. The Corona pandemic rivalries over vaccine distribution is just the beginning of more larger oncoming rivalries over microchips and other technologies.

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 whipsaw in search of a new equilibriums in the years ahead. 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 have to re-adjust with important consequences on pensions, investments and the volume of securities traded on the global capital markets.

The multipolar era will also likely see a nationalization of key privately owned multinational corporations who control critical natural resources and advanced technologies – such as microchips, 5G technologies, rare earth metals, and ingredients for advanced medicines among others.

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 multinational profits shrink. In short, the next decade 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 multi polar 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 ‘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 and re-accelerate. 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.

The US unipolar era, which began in 1989, with the collapse of the Soviet Union, and 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 ending. 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 returns.

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. The preference for crypto over the US dollar is simply an indication of a loss of faith in the global leadership of the US. 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 (including Ukraine) from Russia; any credible threat to any of these countries will expose the porousness of these US defense guarantees – and the ultimate financial impossibility that the US dollar is pledged to undertake.

Alexis de Tocqueville, America's best political psychologist, writing in the 19th century gave reasons why any future American geopolitical, economic and reserve currency dominance won't last.

> *"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..."*

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