

## **Rivals Russia and China unite to end ‘The American Century’:** An altered geopolitical landscape for emerging and frontier markets focused multinational companies and investors

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Geopolitical rivals Russia and China have over the past 48 hours signed a number of historic strategic agreements that commits both governments and their key state-owned businesses to a series of coordinated intensive multi-decade actions to accelerate the end of the American-led unipolar geopolitical and economic world order. Both countries seek a non US-led multi-peaked multipolar great power system where each major power’s respective traditional ‘spheres of influence’ are respected. India’s newly elected leader, who has previously vowed not to step foot in America except to attend the UN, together with Brazil, and South Africa may in coming months also possibly join this Russia-China anchored multi-polar axis.

An end to US hegemony will negatively affect western multinational corporations and investors. The sky high stock prices of major global companies, premised on their global growth strategies, will have to re-adjust to a new hostile multipolar world order where some emerging and frontier markets could become permanently 'closed.' Western global multinational corporations and capital markets investors who have since the end of the Cold War in 1989 assumed a ‘flattening earth’ with predominant American-European political and economic values of liberal democracy, free trade, open capital markets, and laissez-faire capitalism, face an increasingly complex antagonistic competitive mercantilist business landscape. The 25-year surge in global multinational corporate revenues, since the fall of the Berlin Wall in 1989, which has sent the Dow Jones Index soaring over 520% (averaging a 20% yearly return), and the Nasdaq by over 840% (averaging a 33% yearly return) is set to reverse course in search of a new geopolitical equilibrium

The May 21 \$400bn 30-year gas deal between Russia’s Gazprom and China’s China National Petroleum Corporation (CNPC), larger in value than the entire GDP of the United Arab Emirates, is just one node in a dramatically deepening web of strategic accords which now binds both China and Russia to a coordinated

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diplomatic, military, geostrategic, economic, financial, technological and socio-cultural cooperation to catalyze the emergence of a non-US led multipolar world order.

### 25-year Post-Cold War Stock Market Boom at an End

	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

Russia and China, both ancient imperial powers on the economic ascendancy, seek an expanded 'lebensraum' along their current borders - Russia in Eastern Europe (Ukraine), and China in the South China Sea. Together with other BRICS allies, (India, Brazil and South Africa), China and Russia both aim to accelerate the emergence of a non-American led multipolar world order where all major regional powers will have their historic 'spheres of influence' respected by other major power. The US as a matter of policy rejects the notion of 'sphere of influence' in its foreign policy doctrine.

The language accompanying the gas deal strongly suggests geopolitical considerations,

*"The parties [China and Russia] stress the necessity of respecting nations' historic heritage, their cultural traditions and their independent choice of sociopolitical system, value system and development path, of counteracting interference in other countries' domestic affairs, of rejecting the language of*

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unilateral sanctions, or organizing, aiding, financing or encouraging activity aimed at changing the constitutional system of another country or drawing it into any multilateral bloc or union.”

With the US financially beholden to Chinese savers, and Europe dependent on Russian energy supplies, the ultimate emergence of a multipolar order and the end of US global hegemony is not in doubt. The analytic question is “when” rather than “if.”

The Russia-China pact simply accelerates an oncoming natural historic geopolitical change in world affairs. Over the coming years, a multipolar world order with about **‘7 multipolar peaks’** is likely to emerge: **(1) The US-EU-NATO, (2) Russia, (3) China, (4) India, (5) the African Union, (5) Brazil-Union of South American Nations and (6) Pakistan-Saudi Arabia-Egypt.** Unable to fit neatly within any regional geopolitical peak will be **Japan, Iran and Israel**, who will each remain independent geopolitical outliers and epicenters of intra-peak geopolitical tensions for years to come.

While the operating software of the US led unipolar order reflects domestic American liberal democratic, capitalist and free trade values, the emerging multipolar system will also reflect the non-liberal, non-democratic, protectionist, authoritarian, traditional cultural values of Russia and China.

In the coming multipolar world order, companies who are not firmly aligned to and with their home governments will suffer. Worse still, those whose sales is almost evenly divided among several geopolitically competing regions of the world. Most of the well-known global corporate brands are set to face serious new headaches operating beyond their home countries. The regulatory headaches that Silicon Valley technology companies currently face in having to balance requests from the US National Security Agency (NSA) with pressures from antagonistic foreign governments in Turkey, China and Russia to shut down websites will only intensify, and spread to other critical economic sectors. Will BP eventually quit Russia or stay? Will western banks join the EU and US in enforcing sanctions against Russia and China like they did on Iran? And at what price for their growth strategies? Will major international banks throw away their growth opportunities in India, China and Russia in order to remain compliant with US-EU regulations? Simply put, the coming move in global geopolitics away from an American-led hegemonic predominance will have a major negative material consequence on the growth strategies and entry strategies of many of the world’s best-known brands

Even the world’s de facto global reserve currency, the US dollar, much like the Persian Daric, or Greek drachma, or Roman Talent or the British Pound, before it, will also in coming years be replaced by a patchwork of several regional currency and trade arrangements as the Russian ruble, Chinese yuan, Nigerian naira, Brazil real, Indian rupee and several other large countries move toward cross-currency convertibility. With EU-US

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sanctions on Russian banks, the \$400bn Russia-China gas deal will be settled in yuan and rubles, and not in US dollars thru American banks. With over \$500billion US dollars held in cash abroad in \$100 bills, billions of US dollars will begin to find their way back to America as the dollar gradually loses its global reserve status, increasing domestic inflationary pressures and accelerating even further monetary tightening in the years ahead.

The unstable '7-peak' multipolar world order which is emerging will be governed by intense regional rivalries, between competing regional mercantilist trade blocs, unstable bilateral and regional security alliances, great power rivalries, competitive currency unions, proxy land, sea and air battles amidst a renewed conventional and nuclear arms race. The coming multipolar era will also see a re-nationalization of key privately owned multinational corporations who control critical natural resources and advanced technologies in key countries. Many stateless multinationals will be forced to become 'patriotic' and offload offshore assets in unfriendly countries, even as others abandon atrophying domestic markets and 'defect' to re-brand themselves in emerging foreign markets. Major stock markets will see a deluge in foreign equity de-listings as sanctioned companies 'go home,' bourse trading volumes drop, cross-border deals dry up, PE ratios and profits shrink. In short, the next three decades of globalization is going to bear little resemblance to the preceding three. The global economy is being structurally 'teleported' back to the early 19th century.

Many stateless multinational corporations will in the coming years be forced to choose sides. Operating across several competing geopolitical terrains using the same system and protocols will no longer be a viable business strategy. With many multinational companies increasingly making most of their profits and revenues 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 treason, unpatriotic acts and boycotts of their products at home. The recent spike in non-accretive M&A activities is set to accelerate even further as all major global multinationals look to restructure their businesses to concentrate on their core areas of strength.

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 over the past three decades will see growth dramatic growth declines as competing regional and bilateral trade blocs become more insular and protectionist making cross-border M&A unattractive and even dangerous. 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

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Japan will suffer, as well as technology dependent regions such as the Middle East, Latin America and Africa. 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 overall global 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.

The US led unipolar order which saw the rise of the global multinational corporations, the emergence of the World Trade Organization (WTO) 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 near its end. There is 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 taste 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 set for major oncoming shocks.

America's prolonged negative financial net worth; overreliance on Chinese savers and recent foreign policy blunders have all helped hastened the decline of its unipolar hegemony. 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 gargantuan \$18 trillion public debt – greater than the sum of its total GDP plus foreign exchange reserves of \$448 billion, leaves it 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

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western geo-economic strength and heavy dependence on foreign creditors that Russia is uniting with China to challenge US led world order.

### Global net worth rankings

	GDP	Total FX Reserves (\$USD mn)	Total Public Debt (billions)	State Financial 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

Beyond squandered financial resources, the past 25 years has also a series of foreign policy blunders and arbitrariness that has left the international security order in chaos. Instead of safeguarding 'world peace and security' for all, several UN Security Council permanent have pursued naked national interests in contravention of the UN Charter, engendering the faith of other non-permanent actors in the system and accelerating the need for a more multipolar world system. Russia's unilateral non-UN approved annexation of Crimea followed a similar unilateral pattern by Europe in Kosovo and the US in Iraq.

Americans will now have to adapt to an emerging multipolar world order where the word of the US is not final. From Venezuela to Syria to Zimbabwe to Libya to North Korea to Myanmar, these multipolar (anti-unipolar) trends are already underway. The Russia-China pact will simply accelerate these trends.

Russia's leadership of the duo, may come as a surprise to the Pentagon and the White House planners who have seen China as the principal emerging geopolitical rival to the US, and hence the recent 'pivot East' policy. However Russia's geopolitical primacy over China is confirmed by Halford Mackinder's 1904 assertion that,

*"Who rules East Europe commands the Heartland; who rules the Heartland commands the World-Island; who rules the World-Island controls the world."*

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In the Russia-China alliance, while China has the greater financial and material resources, Russia has the stronger anti-American ideological leadership and indispensable geostrategic location in the middle of the Eurasian landmass, spanning three continents, Europe, Asia and North America to lead the duo. With enormous energy and mineral resources, which China needs, coupled with more advanced military systems greater scientific advancements, and a more insular economy, Russia is bound to provide more coherent ideological leadership to the duopoly to the great consternation of Washington DC which has spent the last decade getting ready to do a geopolitical tango with Beijing.

In a further sign that the weakened state of American hegemony goes beyond Russia and China, during the March 27, 2014 vote on Crimea at the UN General Assembly, not only did Brazil, India, China and South Africa abstain from supporting the US backed resolution calling Russia's annexation of Crimea "illegal," other major sub-regional powers also refused to endorse the US-EU position and isolate Russia. Some countries like Israel did not even show up to vote. Sub-regional geopolitical powers such as Bangladesh, Pakistan, Iran, Iraq, Israel, Afghanistan, Algeria-Morocco, Angola-Mozambique, Argentina, Egypt-Sudan, UAE-Oman, Ethiopia-Kenya, Uganda-Rwanda, Senegal-Mali, Mongolia and Kazakhstan all opposed the US-EU action against Russia. All support the Russia and China led move to a multipolar world order. The US and EU could not even get recent large recipients of US economic and security aid: Mali, Afghanistan or Iraq, to vote in solidarity against Russia on Crimea. In other words, as US Secretary of State John Kerry admitted on Capitol Hill on 8 April, 2014 – "the world has changed" essentially, diplomatic politesse for 'the US unipolar order is over!'

Outside the emerging '7-peak' multipolar world order uneasily lies Japan, Iran and Israel. All three countries cannot be geopolitically integrated within the sphere of influence of their regional hegemonic peak.

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-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 in 1972, the US needs China to remain neutral between it and Russia, because if the two land-based hegemonies combine their geopolitical policies, (as they have today), 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. Japan therefore may yet become the first country to provoke a major conflict in this new unstable multipolar era. Long term economic constraints will ultimately cause the US to effectively abandon the military defense of Japan, South Korea and Taiwan to China, much like how Britain transferred the defense of Greece and Turkey to the US after WW II. While the Koreas may ultimately be united, like the two Germany's, and Taiwan may reach a Hong Kong-type agreement with China,

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Japan can never be absorbed into the Chinese sphere of influence. Thus the position of Japan, (much like Germany in the early 20th century), remains the most critically unresolved geopolitical issue of 21<sup>st</sup> century Asia. After Abenomics fails, war may be next. Prime Minister Shinzo Abe forecasting a similar mindset has started dismantling Japan's pacifist constitution.

Israel and Iran, just like Japan, cannot be geopolitically integrated by the regional hegemonic peak, Pakistan-Saudi Arabia 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 insecurity, radicalism and inferiority complexes from Iran's foreign policy calculations and push it to forge an alliance with Israel and dump support for Syria, Hezbollah and Hamas. A recent poll by the Ant-Defamation League (ADL) signaled as much, when it showed that Iran is the least anti-Semitic nation in the Middle East. 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 form a geopolitical peak of their own to rival the Arab-Sunni geopolitical peak of Pakistan-Saudi Arabia and Egypt. A unilateral Israeli attack on Iran will simply isolate Israeli in the geopolitical terms. Israel, an open society nation with a high sensitivity to isolation, is unlikely to take that go it alone on Iran.

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

With US rosy eyed glasses off after Russia's land grab in Crimea, and China's 30-year energy pact with Russia America's geopolitical pivot will ultimately have to be back home to its traditional sphere of influence, the Western hemisphere! Whether the US will wisely 'pivot back home' in time to secure the western hemisphere, while its geopolitical strength is still somewhat potent, or whether the US will completely squander its treasure, pile up trillions of new debt and thousands of body bags in an ultimately unsuccessful defense of wealthy far flung non-geographically non-proximate Asian states - Japan, Taiwan and South Korea and western Europe, remains to be seen. The current decreasing US geopolitical influence over key western hemisphere nations such as Mexico, Brazil, Argentina, Peru, Bolivia, Venezuela Chile, Bolivia and Cuba is a sign of the danger lurking in the US' own backyard. And yet without renewed geopolitical influence by the US over Latin America, the US economy and its businesses may not survive the oncoming mercantilist economic and trade order of the new multipolar world order. Indeed, the emerging Brazil led Union of South American States

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(USAN) may rise within the century to challenge American geopolitical influence in the western hemisphere with Mexico leaving NAFTA and joining that group – bringing the geopolitical interests of another competing and rival bloc to the long southern borders of the United States. With US Latinos forming a voting majority in the southern states bordering Mexico by the 2030s, and likely very supportive of Mexico’s southern geopolitical integration with other Latin speaking nations and away from Anglo speaking US-Canadian NAFTA bloc, the US geopolitical position in coming decades could be in grave existential danger – cut out of key Asian markets – India and China, and isolated at home in the western hemisphere.

Europe having transformed its 1950s customs union into a political entity, the EU, with all the paraphernalia of statehood is still militarily dependent on the US/NATO. However if the US pivots back to the western hemisphere, the Europeans will ultimately beef up their own military. Overall the high cost of the European welfare state, will impinge on the ability of the EU countries to grow defense capabilities. Declining birth rates, EU bureaucratic inertia and an atrophying underlying European economy will over the long-term diminish the geopolitical relevance of Europe among the 7 peaks. With Germany unwilling to take the natural mantle of military leadership of Europe, ultimately the EU will have to reach an accommodation with Russia after it becomes clear that the US cannot financially afford to defend Europe again if it means going to war with China’s ally - Russia.

The African Union (AU) and the Brazil-led Union of South American States (USAN) will be the last to fully emerge among the 7 multipolar peaks. Despite both regions sharing a common bond of colonialism and determined to unite and chart their own course, infrastructural and economic limitations will keep both regions from exerting any strong geopolitical influence beyond their regions for quite a long while.

By 2050, among the 7 multipolar peaks, India is set to surpass China in population and economic growth. Nigeria (if it survives as a single state), will come to dominate the African Union, with the center of African geopolitical gravity shifting westward from South Africa to Nigeria, even as continental economic power shifts eastwards towards Ethiopia and the East African corridor. 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. By 2050 India’s geopolitical power will however be challenged by Muslim Indonesia and Bangladesh, possessing the fourth and eighth largest populations on earth. They will likely 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 and Atlantic basins.

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In the long run either the US-led Organization of American States (OAS) or the Brazil-led USAN will become defunct because major South American countries cannot continue to easily belong to competing multipolar peaks. One organization will gain ascendancy over the other. Much like how Germany's naked national interests are now firmly constrained 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 or inking major economic agreements with key South American nations such as Argentina, Brazil or Venezuela who remain wary of the USA.

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 erosion of 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 unsustainability of these US defense guarantees. Will the US really risk a thermonuclear war with Russia over Ukraine or Poland or even the Baltic nations? Will the US risk war with China, its largest economic trading partner, and top creditor over Taiwan or rocky formations in the South China Sea? Will the US fight another land war with North Korea in defense of South Korea? The answers to these questions are obvious.

As recent US difficulty in key bi-lateral relations with hitherto close allies like Israel, Japan, Saudi Arabia, Egypt, Turkey, Afghanistan, the UK, South Africa, Mexico and Iraq indicate, the US is set to meet very serious challenges trying to hold onto its slipped unipolar global status. While the US engages in the ultimately unsuccessful and fruitless 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.

If American elites both in the executive branch and in Congress, wisely take a calm reasoned analytical view of the current geo-economic, geo-political and geo-military balance of the world, it will become clear that the earlier the US pivots back home to the western hemisphere, the better it will be for the US in the long run. In truth the American Republic was never designed to become a major global geopolitical power. As America's first President George Washington presciently forecasted,

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*“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.”*

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