

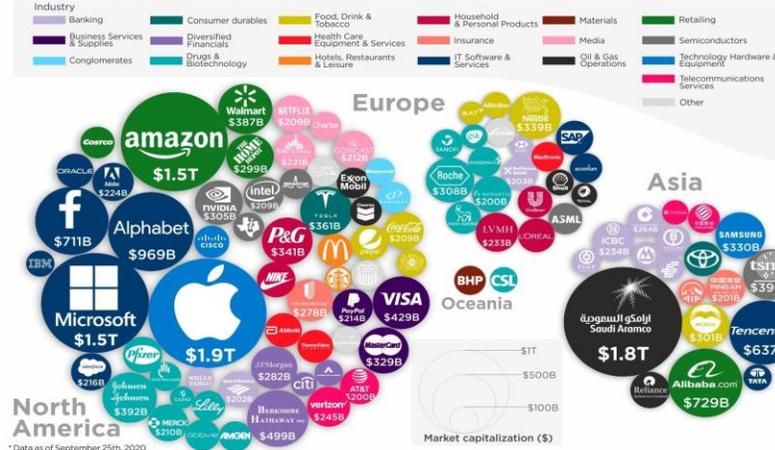
The Patriotic Corporation: Putin’s ‘New Empire of Pain’ aims to change global companies too

February 25, 2022



The Largest Companies in the World in 2020

Top 100 by Market Capitalization*



While the world is very rightly focused on the immense human tragedy of the conflict developing in Ukraine, Russia’s President Vladimir Putin is not merely seeking ancient Russian territories, or the destruction of an obsolete military alliance, or regime change in Kyev, or simply showcase Russia’s new weapon’s systems for new buyers – Putin is seeking a ‘Big Bang’ moment to finally takedown what he considers the suffocating ‘immoral/irreligious’ US-dominated liberal global economic, financial, cultural and geopolitical security order – led by the US and supported financially by a-moral listed global corporations. Putin’s is a total philosophical war, one which the exhausted West is currently unprepared for.

By the time the drumbeat of war has ceased in Europe, and a new world order is emerging – ‘independent a-political listed global companies’ – without national political control, would have probably also ceased to exist. Not only will listed Russian companies – with stock values wiped out turn back to the state for help and takeovers – but major western companies, unable to survive will equally turn to their home governments and friendly states for help and takeover. The independent corporate board as we know it will likely disappear – replaced by state dominated ‘Chinese-style companies,’ in the West.

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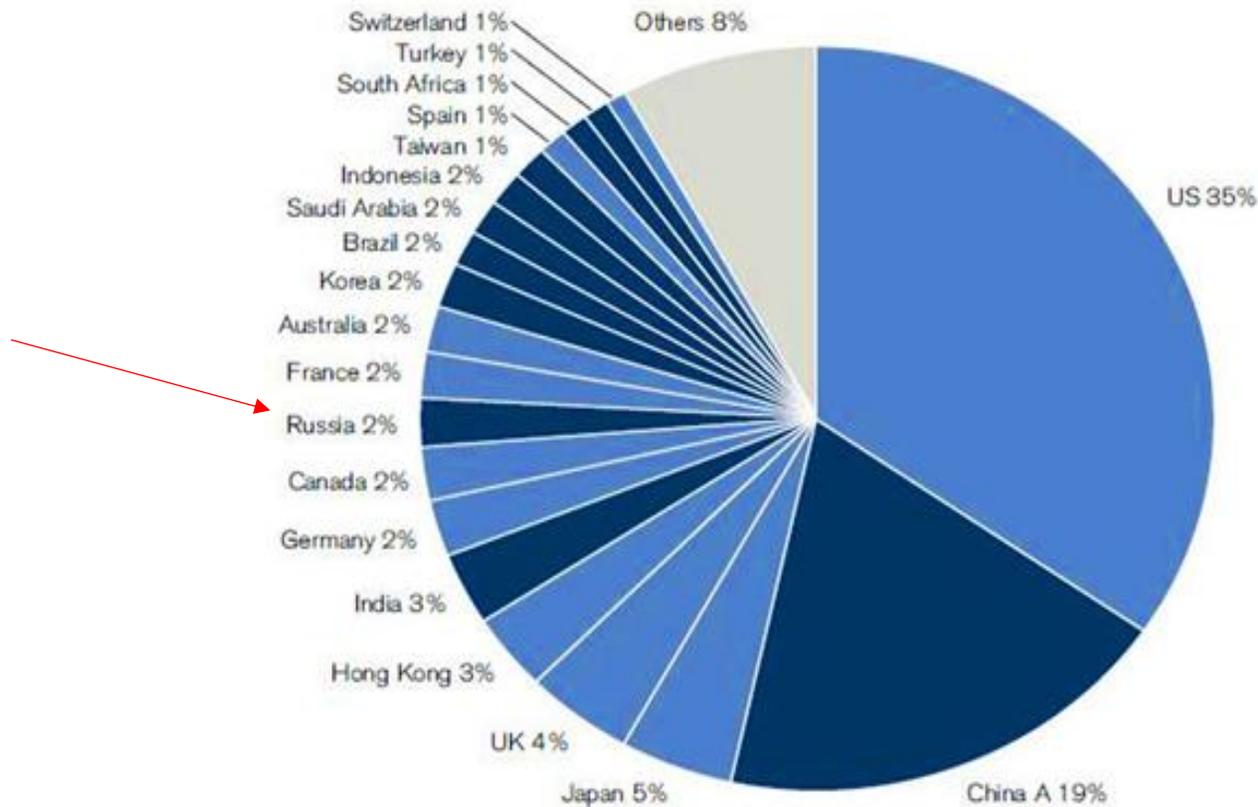
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Russia's stock market will likely close – but other major markets could be wiped out in major selloffs

2030 forecast composition of global equity market capitalization by country (total USD 284.2 trn)

Source: Thomson Reuters, World Federation of Exchanges, Credit Suisse estimates



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 historic 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. Russia's February 2022 invasion of Ukraine, preceded by a quiet Anschluss of Belarus in January 2022 put the final pieces in place for Putin's roll of the dice.

Replacing the stable, non-competitive, US-led liberal democratic, and capitalist, free trade order, will be an unstable, competitive, illiberal, quasi-democratic, protectionist, nationalist corporatist multipolar 19th century-type world order.

The world is likely to re-group geopolitically 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 Gulf 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 epicenters of geopolitical conflicts in the years ahead. Russia has sought to maintain friendly relations with all except Taiwan, which is a red line for its partner, China. While Japan is within the Western alliance, its interests in Asia are not aligned to those of the West.

Underpinning the ongoing loss of global hegemonic status by the US-led alliance is 30 years of UN Security Council dysfunction. Instead of safeguarding 'world peace and security' for all nations, each veto member country has often pursued their naked national interests in contravention of the spirit of the UN Charter. Russia's unilateral invasion of Ukraine, and 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 growing 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 was just the beginning of more larger oncoming rivalries over microchips and other technologies. The refusal of the Europeans and Americans to certify Sputnik V to help with even the corona pandemic is further proof that the era of the a-political company is ending.

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 equilibrium 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 market 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 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 southeast 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 early 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.

Russia's February 2022 invasion of Ukraine and seeming helplessness of the NATO allies and friends of Ukraine exposes the overstretched nature³ of the US-led hegemony.

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..."

Mr Putin is apparently a student of Tocqueville and of America, and he is now seeking to construct his 'Empire of Pain' on the banks of the River Dnieper – with every major global corporation also in his sight!

**Portions of this article were first published in 2014 by the same author.*

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