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## **GEOPOLITICS: PLAYING THE LONG GAME**

### **The demise of the Global West? Not really**

In an increasingly multipolar world, the free and advanced democracies of the Global West<sup>1</sup> are facing ever more challenges. Russia is waging a high-intensity war against a fellow European country while China is aggressively asserting its power, breaking the rules in the South China Sea and threatening to use force against the thriving democracy of Taiwan. The share of NATO and its close friends such as Japan, South Korea, Australia and New Zealand in global GDP has fallen from c66% in 1990, that is at the height of NATO's global clout upon the collapse of the Soviet empire, to c56% now<sup>2</sup>. Partly as a result, the more self-confident countries of the Global South are pursuing their own independent strategies instead of simply siding with the West. For example, India is happily buying weapons from the US while undercutting Western sanctions against Russia by importing more Russian oil. Against that backdrop, it is easy to be pessimistic about the outlook for the advanced countries as defenders of freedom, peace and democracy. But that would be wrong. Time is not on the side of the enemies of the Global West. To prevail, the West needs to stop Russia, deter any further aggression – and persevere with well-funded policies to contain the risks while the troublemakers suffer the consequences of overstretching their economies.

### **Four main sources of trouble**

The current geopolitical turmoil and the worst potential risks for the coming years are largely linked to four countries: China, Russia, Iran and North Korea. All four are run by a supreme leader. Autocrats can be fast, furious and effective in the sense that they face fewer political constraints than the governments of democracies for whatever they are up to. They can focus their country's energies on their chosen priorities. In this sense, they can outmanoeuvre free democracies with their clumsy and noisy decision-making processes for a while. But not for the long haul. Causing trouble is expensive and exhausting. A focus dictated by a leader from above is usually not a good use of resources. Even if their political power is almost unlimited, autocrats face economic constraints. If democracies get their act together, they tend to win in the end. The Soviet Union eventually collapsed under the weight of its own inefficiencies and the costs of an arms race with the much richer US. In World War II, Nazi Germany and Imperial Japan were doomed to lose once the economically dominant democracy US got involved in 1941.

Together, today's four troublemakers produce 19% of global GDP, with China (17%) accounting for the bulk of it. They can cause major mischief. In economic terms, however, they are not – or in the case of China no longer – on the winning side of history. If the Global West musters the will to do so, it can mobilise the resources it needs to counter the threats.

**Peak China.** After ditching the socialist economic model and opening up to the world, China turned itself into an almost unprecedented success story some 30 years ago. The process accelerated when the country joined the World Trade Organization (WTO) in 2001 and thus integrated itself into the global rules-based order for commerce. But the resulting period in which big China narrowed the income gap to the advanced world as rapidly as the much smaller economies of Taiwan and South Korea had done beforehand ended more than five years ago.

- The penchant of China's rulers to artificially prop up flagging trend growth through a succession of stimulus programmes has landed the country with an excessive burden of domestic debt. With aggregate public and private debt at c285% of GDP, China stands out among countries at its stage of

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<sup>1</sup> I use "Global West" as a convenient shorthand for NATO and its friends. Like the term "Global South", it does not fully reflect the geographic location of all countries within the group.

<sup>2</sup> Share in global GDP in current dollar terms. Source: [IMF datamapper](#)



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development. Its attempts to wean itself off the addiction to credit stimuli and the process of allocating the losses from past malinvestment are weighing on its growth prospects.

- Demographics look dismal as China is turning old well before getting rich. China's population started to decline in 2022. With a fertility rate of just 1.2 births per woman, the process looks set to worsen. The United Nations project that China's population will [decline by 204 million](#) until 2054<sup>3</sup>, that is by c14.5%, whereas the US population will continue to increase by 11%. For big China, immigration on a scale that would make a make major difference is not an option.
- China has the means to spend more on the military as well as on other politically chosen priorities. With massive subsidies, China has turned itself into a major force in some high-tech areas. But buying market share is not always a winning strategy. While Western companies have to contend with much fiercer Chinese competition in some areas, the Chinese economy itself continues to struggle. That suggests that the money was not spent well. Letting private enterprises get on with finding their market niches would likely have yielded more growth than the focus dictated by Xi Jinping on his priority sectors. His preference for control and for state-owned enterprises did not help either.

Like other autocrats, Xi tends to stifle the free discourse that is central to ground-breaking innovations. As a result, China probably has to spend more to get a similar rate of innovations than free societies. Unless Xi makes a U-turn and allows much more room again to private enterprise and grants more freedom of opinion within the country, China will struggle to overtake the US (currently 26% of global GDP) as the top economy in the world. And unlike the US, China has hardly any ally of a size worth mentioning except Russia.

From its still comparatively low base, China will continue to outgrow the much richer European countries and the US for the foreseeable future. In that sense, China will continue to narrow the economic gap to the Global West. But in terms of its share in global GDP, China seems to be plateauing since reaching 18.4% in 2021. The rise of regional rivals such as India will affect the national security calculus of China. In addition, the rapid aging of its population will likely tie up resources and constrain the ability to boost investment or military spending as aggressively as before.

**Russia's unsustainable war economy.** Until Russian president Vladimir Putin launched his first invasion of Ukraine (Crimea and Donbass) in early 2014, Russia was a dynamic emerging European economy, performing almost in line with the likes of Poland and the Czech Republic. Since then, it has fallen behind badly. According to the IMF datamapper, its share of global GDP has fallen from a pre-invasion 3% in 2013 to 1.9% now.

After a brief bonanza in 2022 when sky-high commodity prices raised Russian export revenues despite Western sanctions, these revenues are now stabilising at roughly two thirds of their elevated 2022 level. According to the Russian budget, a 70% rise in outlays for the military will raise defence and security spending to 40% of all public expenditure this year. Producing weapons boosts real GDP, which still continues to hold up well in Russia. But this variant of a massive fiscal stimulus does not create value and will run into constraints over time. Workers are paid without producing goods or services that they could consume or that could be used to enhance a country's supply potential. As inflationary pressures tend to build up in a war economy that de facto wastes resources on a grand scale, Russia will be heading deeper into economic trouble with every year in which it stays on a war footing.

Sanctions cannot bring down a country with vast resources and the ability to redirect its exports to other markets. By sourcing its imports differently, Russia still seems to have access to many of the Western goods

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<sup>3</sup> United Nations, Population Prospects, unedited advance edition 2024, p. 19.



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including some advanced technology that it covets for its war effort. But sanctions are a slow poison. Busting them does not come cheap. Sanctions force Russia to accept lower export revenues and raise the import costs of goods that fall under sanctions. They are making it more expensive for Russia to wage Putin's war.

**Iran: mullahs in trouble.** The Islamic Republic of Iran has survived sanctions for decades. But it is paying a high price for it. Its share in global GDP has collapsed from 2.6% in 1990 to 0.8% in 2010 and a mere 0.4% now. Brutal repression is keeping the mullahs (and the Revolutionary Guard) in power for now. But anecdotal evidence suggests that the gap is widening between the official ideology and a population that is ever more suspicious of what the top mullahs are preaching. Any new wave of protest could shake the regime to the core. As long as the Islamic theocracy with a hardline mullah as the "supreme leader" stays in place or the Revolutionary Guard call the shots, as they increasingly seem to do, the room for reforms for instance by the apparently less radical new president seems very limited. Reforms to improve living standards would likely require some rapprochement with the Global West and thus a less aggressive foreign policy.

**Benighted North Korea.** I know little about North Korea and its economy, which seems to be on an almost permanent quasi-war footing. The IMF datamapper does not give data on the size of its economy. The information available suggests that is the only country in Asia with reports of recurrent famines. That speaks for itself.

Iran and North Korea show that countries on the losing side of history can still pose major risks to global peace for a long time. But their ability to lash out is constrained by their lack of resources, especially relative to those which the West can mobilise in its defence.

### **Causing trouble can be expensive**

In economic terms, none of the four countries that are challenging the Global West in one way or the other seems to be on the way up. Suffering from imperial overstretch, Russia and Iran are probably heading for severe domestic problems eventually, like the erstwhile Soviet Union in the 1980s. While major domestic problems or even unrest seem unlikely for China in the foreseeable future, its relative strength could start to wane soon. And if my lay understanding of Chinese history is correct, strong emperors up to Mao Zedong have often been followed by periods of upheaval.

Autocracies in which leaders surround themselves with their chosen yes-sayers are dangerous. They lack the self-correction mechanism of democracies where the top decisionmakers know that they can be booted out at the next election. The longer autocrats stay in power, the more prone they are to make big mistakes, including possibly a penchant for military adventures. In this sense, the Global West must take the risks seriously. This is the one lesson which the West has – hopefully – learned from Putin's war against Ukraine.

### **Playing the long game**

The conclusions for the Global West are obvious. First and foremost, it must guard against the risks posed by aggressive autocrats, for instance with solid spending on defence. Second, it needs to safeguard and harness its own strengths. Third, it needs to reduce its dependence on commodities and some critical goods sourced mostly from China and Russia. Beyond the largely private initiatives to diversify supply chains, that includes public funding for research into alternatives. If genuine concerns about national security suggest that the West should reduce its dependence on specific imports from Russia and China, tariffs on such imports could encourage businesses to search for alternatives. Last but not least, the Global West needs to play the long game.



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In the case of China, containing the risks means to deter its leader from attacking Taiwan credibly and for as long as necessary. Beyond some military support for Taiwan that includes a clear message to China that an invasion of Taiwan would bring most economic interchanges with the Global West to a sudden halt. That would be expensive for the West. But even more so for China which, as a much poorer economy, needs commerce with the top markets in the world even more than vice versa. Deterrence ought to signal to a potential aggressor that the defender is serious about doing what it takes to impose losses which the potential aggressor would not be willing to incur.

In the case of Russia, playing the long game means to give Ukraine all the military, financial and political support needed to wear Russia down for as long as necessary. Keeping Russia at bay is the best investment into making Europe a safe place again. By far the best outcome would be a military success for Ukraine that forces Russia to retreat from occupied territories. Whether or not the West will offer enough support for that is, unfortunately, an open question.

In case of an eventual armistice that still leaves Russia in control of parts of Ukraine, playing the long game would involve at least four elements:

- 1) Ukraine should never be arms-twisted into concessions that could threaten its internal stability. Ukraine's backers need to do their utmost to make sure that a post-armistice Ukraine remains a pro-EU and pro-NATO democracy instead of turning into a place embittered by insufficient Western support in a bad-case scenario.
- 2) Ukraine needs solid military support to deter any new Russian aggression. If NATO membership is not feasible yet (think Hungary's Victor Orban or Turkey's Recep Tayyip Erdoğan), a net of bi- and multilateral security guarantees with Western soldiers on the ground in Odessa and Kharkiv after an armistice could achieve that.
- 3) The West should not lift any sanctions against Russia. Some military experts suggest that Russia could replenish its battered armed forces as to possibly pose a conventional military threat to NATO roughly five years after an armistice in Ukraine. But whether or not Russia could really do so depends partly on the economic resources it could mobilise for that purpose.
- 4) The backers of Ukraine should never recognise any Russian conquests even if a military campaign to liberate these territories seems unlikely for the time being. In the 1980s, those in the West who still insisted that the Baltic states were merely occupied temporarily and illegally by the Soviet Union seemed to be out of touch with the reality on the ground. But in the end, the Baltics regained their independence. Even the small minority of people who voted for pro-Russian parties in Crimea before Putin's "green men" invaded this region of Ukraine may eventually prefer to live in a thriving pro-European Ukraine rather than in Putin's decaying empire.

Playing the long game is neither easy nor cheap. But it pays in the end. The alternatives are more expensive. As one economic example, remember that Germany eventually paid a heavy price for its overreliance on gas imports from Russia. In the early 1980s, major "peace demonstrations" against stationing US cruise missiles in Europe to counter the threat from new Soviet missiles reverberated across Europe. Staying the course, as Europe did, had political costs. For instance, it contributed to the downfall of the then German government in 1982 – which was then replaced by another solidly pro-NATO administration. Had Europe caved in at the time instead of forcefully countering the Soviets, the Soviet Union may have lasted for longer.

Whether or not the Global West musters the will to counter the threats from the troublesome quartet of autocrats for as long as it takes could be the key geopolitical question for years to come. The well-founded expectation that the overstretched economies of the autocrats are not on the winning side of history can hopefully encourage the rich and advanced democracies to persevere.

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