

Prospects

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The point of view

Geopolitical fragmentation is changing the grammar of country risk

Disordered geopolitical fragmentation is shaping the global scenario against a backdrop of US-China rivalry and an environmental emergency. That being the case, we are – and no doubt will be for some time – in a multipolar geopolitical moment: a moment when global coordination and concertation mechanisms are increasingly ineffective as each country – not only those in the Global South – seeks to play its own hand first. Every country will be seeking a new balance between conflictual and transactional approaches, between deterrence and one-off collaboration. Businesses are going to have to learn the grammar of this fragmentation, which will reshape the risk landscape going forward. What can we say about it for the time being?

Two core trends

Self-fulfilment – this tendency towards fragmentation/reconfiguration is happening all the more quickly because it has become self-fulfilling, for a number of reasons.

- **“Revisionist” actors’ willingness to act is contagious.** This is true not only because one conflict may divert attention away from another (Azerbaijan would not have had so much freedom to act if the world had not been so preoccupied with Ukraine) but also because the US, already very busy in its role as global policeman, has a hard time managing multiple competing fronts.
- **The accelerating pace of global rearmament is also liable to fuel a security dilemma in the most strategic regions,** already in open or hidden conflict. The Red Sea has flared up and the South China Sea is white hot. The security dilemma is a spiral of actions that is set in motion when countries no longer trust each other and communication channels no longer work. In such situations, strategists may feel that the cost of taking action will increase as the opposite side steps up its deterrence, and may thus conclude that the enemy is likely to act first. Typically, these questions over the “window of action” are influencing the timing of events in the relationship between Taiwan and China.
- The countdown to the US election is also forcing all countries to rethink their position and acting **as a huge strategic accelerator** – many analysts think a Trump win will change the game in key areas of global geopolitics. Some will wait; others will act. This issue of timing is crucial for Ukraine and Gaza.
- The “geopolitics of strategic nodes” may also prompt many decision-makers (both economic and political) to move to act more quickly: **any actor aware that it has in its possession a more or less unique strategic asset (such as a rare raw material or a geographical position from which it can control an essential flow) is now also considering whether that asset might now have a limited life span** or even be neutralised altogether. For example, the Houthis are currently forcing many shipping companies to take a longer route, but how long will they be able to keep this up? Controlling a raw material undoubtedly confers more lasting influence, but cartel-based thinking will start to look tempting – and with it, the risk of volatility and relative price imbalances, as well as

foreign exchange risk. Country risk will therefore evolve in line with the strategies adopted by the countries that control the new income streams arising from the climate transition.

- Lastly, most strategic thought leaders (chief among them the IMF) are now adopting this idea of fragmentation as the basis for future thinking. **But this near-unanimous analysis is itself a self-fulfilling factor!** Widespread fragmentation – now very much the “in” word – is creating a free-for-all: when everyone is moving, those who stand still will be left behind.

What kind of fragmentation? The pace at which trade and investment are being reconfigured is not keeping up with military strategy or public opinion: in reality, it will be several years before we know how value chains have been redistributed; by contrast, it took Japan and Germany just a few months to lay to rest decades-old pacifist taboos. Similarly, while it is beyond question that the Global South is seeking alternatives to the dollar, unless there is an abrupt change in the perception of what constitutes a safe haven, de-dollarisation can only ever be a slow process; whichever geopolitical scenario plays out, the dollar’s dominant position tends to slow the pace of monetary change. An example from another area: although it took years for the image of the American model of society to lose its lustre, things changed quickly once the idea of double standards took hold. This accelerating fragmentation of soft power has escaped neither India nor the Gulf States, keen to play their influence cards.

Geopolitical “fragmentation” is not a uniform phenomenon, then: fragmentation comes in various forms. Indeed, the timescales vary greatly depending on the domain in which the particular manifestation of fragmentation “plays out”. Trade, investment, military strategy, legal risk and financial risk are all subject to different constraints, dynamics and inertial forces. These timing differences will play an important role in the emergence of new geopolitical risks. They also explain diverging perceptions between, for example, economists and political analysts, or between the business world and military circles. Fragmentation narratives vary depending on where you are and what your role is.

In this chaotic in-between time, what do we know about the grammar of risk?

1. The first rule of a chaotic world is that there can be **abrupt changes of direction throughout the system** (this is the principle that underlies the physics of chaos). For the moment, events have sparked conflicts – and, with actors potentially waiting to spring into action in every strategic corner of the world, there will be more conflicts to come. But there can also be surprises of a more positive kind. The slightest peace negotiation would make just as much noise as a war, especially given that all theatres of conflict are connected. So we should expect strategic surprises: scenarios will not play out in linear fashion.
2. **Who will “drive” the various scenarios? Who will steer and pivot them? This is an essential question.** Indeed, while the violence of geopolitical events seems to give states the upper hand, we must not forget that the cycle over the past ten years or so has been driven first and foremost by politics: the crisis of democracy has also played its part in creating space for autocracies to emerge. Furthermore, domestic politics often prompt states – irrespective of the type of regime – to seek the legitimacy they lack at home in conflicts beyond their borders. The many elections due to take place this year remind us of this relationship between politics and geopolitics and will steer the global scenario, whatever long-term strategies states might adopt. Lastly, it must be noted that, over the past fifteen years, a steady tide of popular uprisings has upset power dynamics, with “unexpected consequences” (perhaps also because we tend to be blind to those things we don’t want to see coming...). The Arab Spring movement was the first to highlight the effect of social networks on insurrections – something that has since been much studied – and, more broadly, on the mutation of politics in the deepest possible sense – a mutation that has since become steadily clearer.

So, for example, the geopolitical logic of expanding Europe to include Ukraine has now been called into question by European farmers, who are also denouncing all products covered by free trade agreements. Similarly, at the other end of the global chessboard, the Gulf States cannot ignore Arab public opinion as they consider their positioning on the conflict in Gaza, even though their priorities still include long-term transition plans in which the start-up nation of Israel plays an important part... If we are to correctly

assess risk, then, we must always be thinking about both politics and geopolitics. **Any strategy that focuses excessively on analysing state strategy alone is likely to end up overlooking political and social issues and dumbing down the nature of the current cycle.**

3. The second most fashionable word in the world of strategy today is multi-alignment. Countries are adopting this approach whenever they can, from India to Vietnam, Saudi Arabia, Thailand and Kazakhstan. **But what is the practical impact of multi-alignment on businesses? In fact, multi-alignment creates both new opportunities and new risks.** This risk/opportunity trade-off must be considered on a case-by-case basis – i.e. country by country and sector by sector. There are opportunities because states are all looking for new partners in strategic sectors such as, for example, the arms industry, which is benefiting as countries seek to become more autonomous in terms of military capability, with Saudi Arabia and India leading the way. But there are risks too: for countries in the Global South, multi-alignment soon runs into conflict with the compliance rules and sanctions that are a feature of western them-and-us geopolitics.

In parts of the world, then, economic warfare prevents business and banks having anything to do with certain states, or at least controls the relationships they are allowed to have with those states. In the rest of the world, though, pragmatism, domestic interests and transactional postures rein supreme. All this is not far from being contradictory (and, above all, disorganised) in what, after all, remains a globalised world marked by complex value chains in which flows cannot generally be traced beyond two or three levels of subcontracting. This contradiction stemming from the geopolitics of sanctions is only becoming more acute and inevitably gives rise to overcompliance and a higher risk of secondary sanctions. In every part of Eurasia that has a strong – and sometimes dependent – relationship with Russia, these contradictions remain unresolved.

4. **It has long been established that reputational risk has taken on new dimensions for economic agents** as social media have cemented their foothold in civil society, and that businesses must increasingly take responsibility for their impact on society. The urgency of the environmental crisis and the accompanying public mobilisation have also taken reputational risk to new levels. And **geopolitical fragmentation is now adding to this dynamic: reputational risk can now mutate into accusations** of collaboration in war, or even genocide. Reputational risk has thus become existential for a company's image and takes a variety of forms, from business relationships to pure matters of image, through publications or even just comments made by employees. The scope of reputational risk as a component of country risk has steadily expanded over the past 20 years as it has become more or less impossible to control. In very practical terms, a country whose sovereign profile raises no particular concerns can nevertheless carry a very high level of reputational risk. An obvious example today is Israel.
5. The only thing that appears certain amid this geopolitical chaos is that all countries are, more or less, seeking strategic control (for want of autonomy) over essential sectors such as food, fertilisers, water, pharmaceuticals, semiconductors, arms, etc. **Working as closely as possible with these sectors thus appears to be a logical strategy in terms of opportunities. Here again, though, it is vital not to forget that behind these new opportunities lurk new risks. States can also use their desire for strategic autonomy as a pretext to abruptly extend the scope of their activities** in a given sector or business, whether by way of regulation, export bans or even nationalisation. In fact, the closer you get to what a state considers strategic, the higher the level of operational risk associated with arbitrary action by that state. And this perception can, of course, be affected not only by economic shocks but also by pure geopolitical rivalry, the issue of semiconductors being a prime example. The only way to anticipate this type of risk will be to cultivate a keen perception of the long-term strategic priorities of each state. ■

Tania SOLLOGOUB

tania.sollogoub@credit-agricole-sa.fr

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12 place des Etats-Unis – 92127 Montrouge Cedex

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