Prospects

Aperiodic – No. 22/284 – 24 October 2022

GEOPOLITICS – Time for choices

Various economic, political and military events of historic proportions are combining today to quickly – and often unexpectedly – redraw the map of relative state power. If this change sticks, it could be a major fork in the road as far as the global geopolitical scenario and the strategic business environment are concerned, ultimately leading to a new equilibrium. For the moment, though, everything is unstable, and this transition could take a long time. Indeed, we find ourselves in a state of systemic disequilibrium, and we need to understand the ins and outs of it, if we're to avoid mistaking the nature of events.

What's happening?

The notion of systemic disequilibrium expresses a quite specific geopolitical situation where the great powers are no longer capable of stabilising international relations. Stabilisation does not mean peace; it means the absence of major conflict between great powers such as would be liable to destabilise the system as a whole. To use a medical metaphor, geopolitical analysts call this a homeostatic equilibrium, homeostasis being a process whereby a living organism regulates itself[1]. Historically, this kind of breakdown in equilibrium signals a weakening of the hegemonic power – currently the United States. It's important to note, however, that this weakening doesn't meant the dominant power is weak. This is clearly evident from the strength of the US dollar and America's military power. But it does mean the dominant power is being challenged and weakened in relative terms and in certain specific fields or arenas of power (including soft power for example).

This type of challenge comes in a variety of forms, which can be seen in international developments today. The most serious challenge is being mounted by revisionist powers bent on overthrowing the world order, sometimes violently, with Russia leading the way. In the introduction to his thesis on the Vienna Congress, Henry Kissinger invites the reader to think about both the nature of revisionist powers and what their emergence says about the current geopolitical moment. "Every time a power denounces the oppression it sees as being embodied by the existing order or the way that order is legitimised, its relations with other powers take a "revolutionary" turn […]. When this happens, we can no longer speak of accidental events under the existing system. It is the fate of the existing system itself that is at stake. […] What is unique about a revisionist power is that nothing can reassure its leaders […]. The absolute security to which a revisionist power aspires results in the absolute insecurity of everyone else […]. Revisionist powers always go to extremes". Another challenge to the global order is also expressed, albeit in a non-confrontational way, by countries that are now increasingly asserting their diplomatic independence, including from their allies, notably by not complying with sanctions against Russia (Turkey, India, the Gulf states, etc). These same countries are also helping weaken the hegemonic order by more actively calling for the reform of international institutions.

War, failures of diplomacy, geopolitical fragmentation… all of this points to a breakdown in the systemic equilibrium. This situation also partly explains the growing level of conflict in the world, which is itself speeding up the shift in the geopolitical order by forcing peoples, groups and nations into them-and-us thinking. It all happens very quickly: when faced with war, you have to pick your camp.

Lastly, at times of systemic disequilibrium in the global order, certain events can suddenly knock the entire system off course, just as chaos theory shows for physical systems in a state of disequilibrium

[1] *War and Change in World Politics*, Robert Gilpin, Cambridge University Press, 1981

Tania SOLLOGOUB
tania.sollogoub@credit-agricole-sa.fr

(for example boiling water, which subsequently turns into gas). These are exactly the types of events that may happen now, and that can move us more quickly than expected towards a new power cycle. Such a cycle may be dominated by a hegemon (it could, in fact, end up being another US-dominated cycle); or it could usher in a new cold war between two blocks; or it could give birth to a much more multipolar world – but only if institutional mechanisms guaranteeing regional security are established and universally recognised. At this stage, we have no idea which of these scenarios will prevail, but all the signals and events pointing towards one or other hypothesis must be identified as they arise.

Finally, note that, in this analysis, we'll deliberately set aside scenarios involving the use of weapons of mass destruction, unfortunately not because such scenarios are unlikely but because – if we can put it this way – they fall outside the scope of our competence. So we'll be careful to stay in the realm of sub-atomic scenarios, in the world as it currently still exists today.

Power is beginning to be redistributed along six key axes in the areas of politics, economics and ideology, which could affect the global geopolitical equilibrium.

1. **Russian domestic politics has reached a tipping point that could ultimately herald a decisive shift of power on the global geopolitical stage.** While the Russian economy has certainly not collapsed, the situation is likely to deteriorate very quickly over the coming months and the shock of the sudden shift to a war economy footing looks difficult to sustain in the long term. For the time being, Russia has limited the decline in its GDP by rerouting oil exports to customers outside Europe, with high energy prices offsetting the discounts offered. Russia has thus continued to net considerable revenue from energy exports and thus maintain some semblance of a balanced budget. This has supported both economic activity and the rouble as well as helping keep a lid on inflation. Some sectors have clearly been hit very hard by supply chain disruption – the auto industry, aviation, pharmaceuticals and the IT sector come to mind – but efforts to build new import networks through an opaque series of intermediaries have largely offset the impact of supply chain disruption.

   Yet this economic snapshot is not enough to gauge Russia's reality, for at least two reasons. As far as sanctions are concerned, their effects will grow and be magnified by winter, when truck parts will start to become scarce. And, as the conflict intensifies, even those powers most heavily involved in supplying the Russian market are starting to have second thoughts. For example, the Turkish government recently put a limit on the number of banks accepting the universal Russian credit card MIR, created after 2014 precisely to ensure that Russian citizens would be able to access their cash in other countries in the event of problems.

   ## Russia is also being rocked by its own weaknesses

   The second reason is the most important: **the partial mobilisation has brought domestic politics abruptly to breaking point**, with over 250,000 men leaving the country in the space of a few days – a historic event by anyone's standards. Even if the process were to become more orderly over the next few weeks, the damage has probably already been done: whereas the president had, over the past twenty years or so, succeeded in keeping his popularity rating fairly high even in the midst of geopolitical and economic crises, his legitimacy is now being called into question by moderates and hardliners alike. There are deep-rooted reasons for this shift: the social contract between the Russian people and the state, which was based on the maintenance of internal security in exchange for sacrificing some amount of political freedom, has, for the time being, been broken, at least for a part of the population. And the relationship between the centre and the regions will be strained to the limit, with the war economy sapping hardly the regions' human and economic resources.

   Furthermore, Russian power is also in trouble on the world stage (balanced by some success on the ideological stage; see number 6) – increasingly isolated diplomatically, and, most importantly, fast losing its reputation due to the atrocities of the conflict and also, paradoxically, because the strongman archetype that Putin embodies in the eyes of part of the world's population has been unacceptably weakened. Strong leaders are not allowed to show weakness. Russia has apparently become an object of mockery on some Chinese social media, and this is clearly upsetting for the most pro-Russian African populations.

2. **While any one of a number of scenarios could now play out in Russia, one thing is clear: the domestic political crisis has already signalled the end of Putin's Eurasian dream and heralds a**

Tania SOLLOGOUB
tania.sollogoub@credit-agricole-sa.fr

second death of the USSR[2]. This situation creates a risk of destabilisation all along the empire's margins – in the Caucasus, Central Asia and even the Arctic – once again paving the way for scenarios characterised by a significant redistribution of power. Every one of the region's maritime areas has also taken on strategic importance for neighbouring countries, a situation that could give rise to tensions. This kind of disorder had already begun to arise over the past few years between Azerbaijan and Armenia and between Kyrgyzstan and Tajikistan; moreover, it signalled the weakening of Russia, which was no longer able to stabilise its margins. But no great power seems able to settle these conflicts any more.

The changes in Central Asia are clearly a huge issue for China: as well as being part of its hinterland and a supplier of energy, Central Asia is of massive strategic importance for a power that is geopolitically constrained along its sea coasts. In a highly symbolic move, Xi Jinping thus reserved his first foreign trip since the start of the Covid crisis for the Shanghai Cooperation Organisation summit in Samarkand, where he met with not only Putin but also all the presidents from a region that has gained in strategic importance for its Chinese neighbour. Turkey, also present at the Samarkand summit (and invited by Russia…), is the other regional power that is not going to let a post-Soviet space fragment without finding a way to turn the situation to its own advantage. Moreover, Turkey has far more cultural assets than China: Turkistan is a historical reality, whereas the Chinese presence in Kazakhstan is rejected, mainly because of the treatment of the Kazakh population in Xinjiang.

Is Ukraine the first battle in the war for Eurasia?

China thus has good reason to fear an escalation of the conflict, as it has told the United Nations: **the consequences of the war in Ukraine and of Russian decline could trigger a huge strategic domino effect**. Furthermore, some US think tanks have no hesitation in describing the war in Ukraine as the first battle for Eurasia, considered since the time of Mackinder – one of the fathers of contemporary geopolitics – as a key piece in the global geopolitical power game: "whoever rules Eurasia controls the world"… None of this has escaped the notice of Erdogan, master of the Bosphorus and the Sublime Porte, or the Iranians, or the Azerbaijanis, or the Egyptians, or the Gulf States, or Israel… It's to be hoped it won't escape Europe either.

3. **The third axis of power that is currently pivoting has to do with economics: China is now weaker than it was**. Faced with – among other things – slower growth because of its zero-Covid policy, a real estate bubble, consumer mistrust, high youth unemployment and a declining birth rate, China finds itself in an unpredictable economic situation whose outcome remains shrouded in uncertainty, made more turbulent still by its technological uncoupling from the West. No matter what happens next in the Chinese economy, the immediate geopolitical consequence is clear: China won't be able to catch up economically with the United States as quickly as it had been doing. In fact, Beijing no longer has the economic resources to match it its hegemonic ambitions, as evidenced by the weakening finances dedicated to its "New Silk Road" programme. Of course, this does nothing to eliminate either China's long-term strategic rivalry with the United States – reaffirmed in the last National Security Strategy of the US government- or the risk of short-term tensions. The fact remains, however, that **what Chinese economy needs right now is not tension but time**. On this subject, the twentieth Congress results indicate that ideology will probably keep the lead of all strategic decisions in China.

Geopolitical analysts also need to listen to the economy

The economy is thus signalling a weakening of Chinese power to western geopolitical analysts who have yet to clearly identify this signal on their collective radar, so focused are they on the idea of China as the hegemonic enemy of the US, and the reality of the risk surrounding Taiwan (which has obviously increased). Nevertheless, for the time being, claims that China has "already won"[3] seem to be detached from economic reality: to be a new hegemon, China needs time, and the US will have to be much more weakened than that.

4. **Does this mean the United States has 'won' – an impression conveyed by many commentators, heightened by images from the Ukrainian front and charts showing the dollar's steady rise? On this specific point, it's vital not to get the analysis wrong: the only thing we can say for certain right now is that US power has been distorted**, as has been steadily happening over the past ten years: although monetarily and militarily stronger, although it has managed to rally Europe and Nato

[2] *Asie centrale – La seconde mort de l'URSS*, Tania Sollogoub, 2022
[3] *Has China Won? The Chinese Challenge to American Primacy*, Kishore Mahbubani, PublicAffairs, 2020

Tania SOLLOGOUB
tania.sollogoub@credit-agricole-sa.fr

under their leadership, the US is still very weak in terms of its social cohesion. This summer, President Biden took delivery of a report he had ordered from American historians[4] pointing out that US society, riddled with signs of proto-fascism[5], is as fragmented now as it was on the eve of the Civil War. Externally, Russia's weakness has certainly done nothing to hinder anti-Western rhetoric around the world, sometimes even encouraging it, as evidenced by United Nations votes.

5. **Naturally, the fifth axis of power has to do with the reordering of the world along multipolar lines. Many economic signals are pointing to this shift** as certain regions take advantage of the present state of affairs. The current big winners in this great geo-economic reordering are the Gulf states, which are building up huge external and budget surpluses, pulling up even those countries with the weakest debt profiles, such as Oman. However, before we can tell whether what we're witnessing is truly a shift of geopolitical power, we'll need to see what these countries are going to do with all this excess liquidity, and whether they can unite enough to implement an organised regional geopolitical strategy. This seems to be true of Egypt, now a pivotal country supported by the GCC (and the IMF!), but very fragile from an economic point of view. It also seems to be true of the region's relationship with Israel: since signing the Abraham Accords, the latter has been working to secure its geo-economic interests amid the rapid regional reordering. **However, the fact remains that there are still a number of considerable structural obstacles that could throw the trajectory off course**. These obstacles are geopolitical, political and economic as much as they are social, ranging – in no particular order – from youth unemployment in Saudi Arabia to power relations between Saudi Arabia and the Emirates and the challenges of climate transition and regional industrialisation. In short, there's no shortage of wealth but the key is knowing how to use it wisely. Meanwhile, India, while not rich, is benefiting both politically and economically from its pivotal strategic situation. Its high GDP growth rate will attract investors in a low-growth world – including investors seeking new opportunities for part of their investments in China. Paradoxically, however, this growth rate is not high enough to absorb new entrants into the labour market or finance the huge infrastructure requirements of a country that is still in many ways underdeveloped. **From a geopolitical perspective, though, India is now signalling very strongly that it too yearns for a more multipolar world**, and the growing Indian soft power is also an important geopolitical hint backing this scenario.

Who will win the global war of idea?

6. **The final shift of power is the most uncertain but perhaps also the most important in the long term: who will win the global war of ideas? Behind the conflict in Ukraine lie a number of different wars, areas of confrontation and time frames. Companies must now discern these areas and time frames as they seek to outline their foreign policy: each could one day materialise as either a risk or an opportunity. Ideologically speaking, it's clear that the war is already global in scale**. This has been true more or less from the outset, with all participants contributing to the war of ideas. But this battle will rumble on long after the guns have fallen silent: clashes of ideas play out over much longer timescales than military conflicts. Furthermore, winning the war on the ground doesn't necessarily mean you've won the war of ideas. Lastly, we need to be aware that this war of ideas will also play a role in shaping our investment universe by influencing the emerging global geopolitical equilibrium, whatever the short- and long-term military situation and however weakened Russia might be economically and politically in the short and long term.

   In a way, the ideological dimension of the conflict as the Kremlin sees it – a proxy war between the West and the rest of the world, with Moscow as the "pinnacle"[6] – is slipping from Russia's grip as it becomes more global in nature. At this stage, no united bloc has emerged behind an anti-Western leader, highlighting the fact that both Russia and China have failed to take on this role despite having coveted such leadership for the past thirty years. But the story clearly isn't over yet… From the outset of the conflict, Beijing has adopted a stance calculated to avoid the threat of economic sanctions while aligning itself ideologically with Russia against the West. While this strategy has been described as ambiguous, adopting this stance has enabled China to secure a number of strategic advantages: it has avoided a complete economic break with the West – something it would certainly not be able to withstand at the present time – and cashed in on Russia's ideological capital. It has chosen the path of patience: avoid war and let events work to its advantage. One might say it has taken a leaf out of Sun Tzu's book. Beijing

[4] *Historians privately warn Biden that America's democracy is teetering*, The Washington Post, August 2022
[5] "Reconnaître le fascisme", Umberto Eco, Grasset, 1997
[6] "*This war is a kind of proxy war between the West and the rest – Russia being, as it has been in history, the pinnacle of 'the rest' – for a future world order*", S. Karaganov, interview in *The New Statesman*, April 2022.

Tania SOLLOGOUB
tania.sollogoub@credit-agricole-sa.fr

has theorised about global ideological warfare – but only after the United States and the USSR! – by drawing on the concept of the "Three Warfares": public opinion warfare (rallying others to one's cause and appealing to the emotions), psychological warfare (demoralising the enemy's armed forces and undermining trust between enemy governments and their people) and legal warfare (using or making laws to dissuade, constrain or punish)[7].

This hijacking and institutionalised use of international law to try to shift the geopolitical balance of power has also given rise to a concept that originally emerged in US neoconservative circles but has in recent years taken on huge strategic importance across the board: lawfare[8]. As Amélie Férey spells out in an IFRI study, lawfare currently manifests itself in four main forms: "adapting legal constraints by reinterpreting existing standards; issuing new standards by means of legal lobbying in the service of a power strategy; mobilising the effects of law to force a party to act a certain way through strategic judicialisation; and using the law as a reputational weapon".

The pitfalls of lawfare

Strengthened by the power of social media, which have made the global intellectual space both fragile and "liquid"[9], lawfare is also becoming one of the most powerful tools of ideological warfare and thus a *de facto* source of a great many operational risks for businesses. **This war provides an extreme example both of the evolution of lawfare over the past twenty years and of its attendant paradoxes**. While the United States has long used lawfare as an instrument of hegemonic domination (through the extraterritorial application of US law and economic warfare), it has now also become a weapon of war for all enemies of the US. Russia's alternative legal discourse on the right of intervention has become very influential both at home and abroad as Russia seeks to build a post-Soviet space by legally redefining its diaspora. This legal discourse has gradually given substance to the Russian obsession with rewriting history; as long ago as 2008, Russia's leaders came up with the idea of the "Russky mir", encompassing the thirty million people who live beyond Russia's borders but maintain ethnic, legal and cultural ties with Russia. This discourse has taken over the heart of the state and Russian society.

The fact remains that, although the war has caused the debate to gather momentum, the anti-Western ideological bloc is mostly an ill-assorted collection of various types of regimes, geopolitical strategies and political factions within countries, lacking any true unity or strategy for reform. At the extreme end of the spectrum, there is a rejection of the West's two-faced position on human rights: the idea of double standards that runs through post-war history. Part of the critique of democracy is also based on this point. In a similar vein, there is also authoritarian regimes' distrust of the geopolitics of human rights, which they see as a direct threat. Some countries – especially those with a desire to conquer or with latent territorial conflicts – take an ambiguous position on the idea of territorial sovereignty. Lastly, on top of all this there is the legacy of Third-Worldism and the non-alignment of the 1960s, against the backdrop of which the rejection of the West echoes the rejection of financial capitalism. For example, the interview with Brazil's Lula in Time magazine is very revealing of what is happening in many Latin American countries, which see the Russian and Ukrainian presidents as sharing responsibility for the war and, above all, blame the United Nations logjam and are calling for reform of global institutions.

[7] https://www.liberation.fr/international/asie-pacifique/operations-dinfluence-les-trois-guerres-du-parti-communiste-chinois-20210921_BVEZX45WV5GRZDWJITVOFQLU6E/
[8] https://www.ifri.org/sites/default/files/atoms/files/ferey_guerre_des_normes_2022.pdf
[9] See the work of sociologist Zygmunt Bauman on the concept of the liquid society.

Tania SOLLOGOUB
tania.sollogoub@credit-agricole-sa.fr

For the time being, then, the conflict in Ukraine is redrawing the ideological power map in three ways:

- Firstly, the radical critique of the Western enemy embodied by Russia's weapons is finding ideological resonance in many countries. And it is not clear that talk of genocide is doing anything to dampen this resonance; indeed, if such talk is seen as a tool of Western lawfare, it could even amplify it.
- Secondly, it is strengthening the geopolitical autonomy of middle powers and thus pushing the world towards greater multipolarity, including in terms of governance and legal standards.
- Lastly, it is **reigniting the old debate about the need to overhaul international organisations. This debate will become essential**, including as part of any Ukrainian peace process: such a process cannot ignore the need for a more global institutional rethink of the world order.

The changes wrought by the war have thus strengthened the West's alignment, particularly Europe's alignment with the US, but they have also increased the tendency of other countries, chief among them the BRICs, to be non-aligned. Moreover, **the perceived scarcity of resources is also forcing all countries, even the smallest, to rethink the security of their supplies, and thus their alliances and the design of their supply chains**. For many western countries, part of the answer lies in working towards "globalisation among friends" and choosing where one's dependencies lie: not completely withdrawing from globalisation but trying to manage the associated risks. However, if there's one key thing more distant and less advanced countries have observed through the Covid crisis, it's the lack of solidarity between western nations. Meanwhile, President Trump and the shadow he cast are still fresh in people's minds, inspiring some degree of wariness as to just how strong the western alliance of friends really is… **All these countries will thus cultivate maximum strategic ambiguity and local alliances, each in their own way and with the resources available to them**.

So? Time for choices?

The war in Ukraine, Covid and the clash between the US and China are not only changing the balance of power but also prompting each and every country to revisit its geo-economic strategy. The ideological map of the world is also evolving. At times like this – times of disequilibrium and potential bifurcation – individual decisions take on momentous importance: certain choices and strategies can have historic consequences.

The Kremlin must choose whether to continue with its terrifying escalation to extremes or to forge a path towards peace. The United States also has a choice to make: it could be tempted – by hubris? – to press its advantage against both Russia and a weakened China so as to set the pace of a geopolitics of human rights that will at the same time serve as the foundation of a new hegemonic cycle under its control. The trip made by Nancy Pelosi, Speaker of the US House of Representatives, in August hints at this type of scenario. China also faces a choice: in recent years, geopolitics and political ideology seem to have gained the upper hand over the usual Chinese economic pragmatism, at the clear expense of the country's development trajectory.

Lastly, and perhaps most importantly, there are choices facing all the peoples of the world, many of whom are already weighed down by "This Sleepless World" that so afflicted Stefan Zweig: "There is no such thing as indifference when reality comes knocking; no one stays safe on their rock, smiling as they watch the floodwaters rise. Whether knowingly or unknowingly, everyone is borne along by the current, without knowing where it will take them. No one can cut themselves off from others."

Consult our last publications

Date	Title	Theme
21/10/2022	Can European funds change the course of democracy?	Europe
17/10/2022	France – 2022-2023 Scenario: the economy and the challenges of inflation	France
13/10/2022	France – 2023 Draft Budget Bill: A public deficit stabilised against a backdrop of crises	France
05/10/2022	World – Macro-economic Scenario 2022-2023: horizon gloomy... but above all uncertain	World
22/09/2022	Central banks' inflation misstep: easy to criticise, not so simple in reality	World
01/08/2022	United Kingdom –2022-2023 Scenario: shock on real incomes, slowdown in growth	United-Kingdom
28/07/2022	Italy – 2022-2023 scenario: The energy crisis chapter 2	Italy
28/07/2022	The new face of globalisation	World

Crédit Agricole S.A. — Group Economic Research
12 place des Etats-Unis – 92127 Montrouge Cedex
Publication Manager and chief Editor: Isabelle Job-Bazille
Information center: Dominique Petit - **Statistics:** Alexis Mayer, Jorge Mariano Mamani Soria, Youyiming Wang
Sub-editor: Véronique Champion

Contact: *publication.eco@credit-agricole-sa.fr*

Access and subscribe to our free online publications:
Internal Website: https://portaileco.ca-sa.adsi.credit-agricole.fr/en
Website: http://etudes-economiques.credit-agricole.com
iPad: Etudes ECO application available in App store platform
Android: Etudes ECO application available in Google Play