

# The New Geopolitical Challenges

By KISHORE MAHBUBANI



**Directors have traditionally focused on the commercial challenges their companies face, such as the price, quality and competitiveness of their products. They have also paid attention to global macroeconomic trends, like inflation and recession. In the coming decades, they must pay equal attention to geopolitical challenges.**

**G**eopolitical challenges are, almost by definition, complex. Each major challenge that could affect Singapore—today, the US-China contest, the Russian war in Ukraine and the growing China-India rivalry—requires a deep understanding of the historical and contemporary forces that drive it. It's dangerous to make predictions about the future. It always surprises us. Yet, there's no doubt that the US-China contest will accelerate in the coming decades and become the biggest challenge for Singapore companies.

This acceleration will be driven by a complex constellation of forces, which I have described in

my book *Has China Won?* The US establishment has reached a consensus that it has about a decade to stop China from becoming number one. This is why some influential American policymakers are calling for a “decoupling” of the US and Chinese economies. If this happens, Singapore companies could be hurt in the process. Hence, every company director should make a deep effort to make sense of the complex issues surrounding the US-China contest.

Take the issue of “decoupling”, for example. The political impulse to “decouple” is very strong. In September 2022, the US Congress asked the CEOs of Bank of America, Citigroup and JPMorgan

Chase if their banks would pull assets out of China and stop doing business with the CCP if China were to invade Taiwan. They all replied that they would follow government guidance on the matter. In short, they would pull out of the Chinese market if the US Congress asked them to. Some Singapore companies may be relying on American banks to finance their transactions with China. Would this financing end if the US Congress calls for a termination?

Yet, while the pressures for decoupling are strong, it's also a fact that many major American companies still rely on China to manufacture their products and provide a major market. Apple, the world's largest company by market capitalisation, still manufactures an estimated 90 per cent of its products in China. In 2022, it sold an estimated 42.9 million iPhones in China, and its Chinese revenues reached US\$68.3 billion (S\$92.2 billion). Similarly, major American automobile companies, like GM and Ford, rely on the Chinese market for a large proportion of their sales.

To complicate matters, American policymaking is not as straightforward as Singapore's. Singapore policymakers do rational cost-benefit analyses and pass legislation that would serve the national interests of Singapore. The private sector is not allowed to lobby for exemptions to protect their narrow interests. By contrast, in the US, the legislation passed by the US Congress is heavily influenced by private sector lobbying. Some US companies may gain exemptions for investing or selling in China, exemptions that Singapore companies may not be eligible for.

The US Congress may conceivably pass legislation forcing companies to choose between the US and Chinese markets. Ten years ago, it would have been rational for a Singapore company to choose the American market. In 2010, the retail goods market in the US was US\$4 trillion, while China's was only US\$1.8 trillion.

Yet, by 2020, the Chinese market had grown more than three times to US\$6 trillion, while the US market only rose to US\$5.5 trillion.

To further complicate matters, China's decision to join the Regional Comprehensive Economic Partnership (RCEP), the world's largest Free Trade Agreement, in January 2022 and the US decision to withdraw from the Trans-Pacific Partnership in January 2017 means that the Chinese economy will be more integrated with the other 14 members of the RCEP than the US economy will be. Any decision to "decouple" from the Chinese economy could lead to a "decoupling" from the larger Asia-Pacific economic ecosystem. Singapore companies may find themselves torn between their commercial interest in expanding in Asian (including Chinese) markets and their political interest in not being subject to punitive measures from US legislations.

East Asian governments have also been subject to such political pressures. Given the price and competitiveness of Huawei telecom equipment, many East Asian governments were inclined to use Huawei equipment. However, they were told (privately and discreetly) that a decision to purchase Huawei equipment would lead to censure from Washington DC. Huawei provides a dilemma from the past. In the future, China will eventually share its digital currency (e-CNY) with the world. For commercial reasons, Singapore companies may wish to sign on. For political reasons, they may wish to hesitate.

In short, geopolitical pressures will provide significant new challenges for Singapore companies. Hence, company directors should make a major effort to understand the new geopolitical challenges that are emerging in our region. ■

*Kishore Mahbubani is a Distinguished Fellow at the Asia Research Institute, National University of Singapore. He is the author of Has China Won? The Chinese Challenge to American Primacy.*