

GEOPOLITICAL RISK CONTINUES TO RISE....

This week, the state of China's relations with the West and its implications for investors are foremost in my thoughts. Relations with China, already complicated by trade tensions, were dealt a serious blow on December 1st with the arrest, in Vancouver, of Weng Wanzhou, CFO of Huawei and daughter of its founder. Ms. Wanzhou was detained for extradition to the United States on the allegation that she violated sanctions against Iran. Chinese reprisals against Canada were swift and sharp as it moved to detain Canadian nationals and sentence a Canadian convicted of drug trafficking to death. These developments are regrettable and point to a further deterioration in geopolitics that will affect everyone, including investors, for some time to come.

If there had been any doubt, the decision by the United States to request the arrest of Meng Wanzhou and the hard line taken by the Chinese in response are indicative that the United States and China are fully engaged in a struggle for global influence. As we have commented in the Global Investment Letter on more than one occasion, one aspect of the American trade dispute with China is an attempt to contain Chinese influence. The appointment of Xi Jinping as effective leader of China for life suggests a return in Chinese politics to a more authoritarian form of government. China is not alone in drifting to this style of governing. This raises risk for investors in these markets as authoritarian regimes are known to act in an arbitrary manner and not be respectful of the rule of law.

The next several decades will witness a struggle between the United States and China that will play out not only in major economies but perhaps more acutely in emerging markets, where influence can more easily be obtained. The struggle will be reminiscent of the "Great Game" of the 19th century, an intense rivalry between the British and Russian Empires that existed for most of the century. China has already been active in cultivating influence in Africa for some time.

There is little doubt that investors will have to pay increasingly close attention to political changes in future. Authoritarian regimes, and countries under their influence, represent higher risk places to invest than liberal democracies. While it has always been important to consider the political environment of a nation in assessing the risk/reward of investment, it will be even more critical in the future.

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