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Will Trump reverse the decline of US hegemony?

Will China’s rise and US hegemony’s decline continue or will Trump “Make America Great Again”? At times like this, it seems that many market commentators do not link the post-WWII period of exceptional growth to a period of exceptional peace. And that is despite *“war, a by-product of the arts of peace”* (Ambrose Bierce) getting closer to all of us in recent years.

Many will agree with Ambrose Bierce’s description of peace, *“In international affairs, a period of cheating between two periods of fighting”*. In recent years as geopolitical tensions gave way to more wars, global markets have not flinched. There is the Ukraine/Russian war, the Israeli/Hamas war that includes Lebanon, Syria, Yemen, and Iran, Iraq instability, Kurdish uprisings, the JNIM and IS Sahel mass-casualty attacks in Burkina Faso, Mali, and Niger, the Sudanese civilian war, the Ethiopia/Eritrea conflict, the Rwanda supported M23/DRC war, and active terrorism in nearby northern Mozambique.

Under its humanitarian law portal, the Geneva Academy monitors 45 non-international armed conflicts (NIACs) in MENA, 35 in Africa, and 19 in Asia.

In addition, there are two international armed conflicts taking place between India and Pakistan, and between India and China, and four military occupations in eastern Europe.

Little wonder that the major global economies still live by Roman general Publius Flavius Renatus’s adage, *“if you want peace, prepare for war”* - 5th Century AD. None more so than the US who, in 2024, accounted for \$968bn or almost 50% of the top 15 largest defence budgets.

The 15 largest defence budgets in the world

| No. | Country | \$bn | (%) | Cum % |
|-----|--------------|--------------|-------------|-------------|
| 1 | US | 968 | 48,8% | 48,8% |
| 2 | China | 235 | 11,8% | 60,6% |
| 3 | Russia | 146 | 7,4% | 68,0% |
| 4 | Germany | 86 | 4,3% | 72,3% |
| 5 | UK | 81 | 4,1% | 76,4% |
| 6 | India | 74 | 3,7% | 80,1% |
| 7 | Saudi Arabia | 72 | 3,6% | 83,8% |
| 8 | France | 64 | 3,2% | 87,0% |
| 9 | Japan | 53 | 2,7% | 89,7% |
| 10 | South Korea | 44 | 2,2% | 91,9% |
| 11 | Australia | 36 | 1,8% | 93,7% |
| 12 | Italy | 35 | 1,8% | 95,5% |
| 13 | Israel | 34 | 1,7% | 97,2% |
| 14 | Ukraine | 28 | 1,4% | 98,6% |
| 15 | Poland | 28 | 1,4% | 100% |
| | | 1 984 | 100% | 100% |

Source: International Institute for Strategic Studies



According to Visual Capitalist, *"just five prime contractors receive 86% of the Pentagon's spending, leading to speculation that this concentration has fostered overspending and lower productivity gains"*. Clearly a Department of Government Efficiency (DOGE) target. The US has 128 permanent military bases in 49 countries and several hundred temporary sites.

Why does the US spend such vast amounts on defence?

In a Council on Foreign Relations article (June 2024), Jonathan Masters noted that *"Like the British Royal Navy more than a century before it, the US Navy has a command of the sea that affords the United States unrivalled international influence. For decades, its size and sophistication have enabled leaders in Washington to project American power over much of the world, during times of both war and peace. Yet, some experts believe the navy is at a crossroads, facing a set of historic challenges, including budget pressure and China's naval modernization, that could erode its supremacy"*.

In The Myth Behind Increased Military Spending – Inkstick, July 2023, Heidi Peltier's said that *"US defence spending is part of a cycle of economic power. Military contractors such as Lockheed Martin, Raytheon, Boeing, General Dynamics, and Northrop Grumman — the "Big 5" — spend millions of dollars in lobbying each year and convince both the American public and the congresspeople they sponsor that defence spending is necessary for jobs and that must be protected at all costs. Military spending is then prioritized in congressional budget negotiations"*.

"The cycle of power continues with billions of dollars strategically spread throughout the 50 states where communities become dependent on those military contractor jobs, all the while making constituents happy. But is military spending the best source of jobs? In fiscal 2022 over one-third of nearly 2.2m federal civilian employees worked for the DOD. In comparison, only 1% worked for the Department of State. In other words, the US government had 34 times as many people working for the agency that perpetuates war compared to the one devoted to diplomacy".

If one adds active-duty military and department of Veterans Affairs employees, then 72% of US federal employment is devoted to the military. Elon Musk and

his DOGE team will be taking a close look at the Pentagon intending to search for potential waste and fraud. President Trump confirmed that *"I've instructed him to go check out education and the Pentagon, which is the military. And you know, sadly, you'll find some things that are pretty bad"*.

Watch this space: the DOGE findings are likely to impact future military expenditure and the security of US global trade. Trump's ideas concerning the military and wars are already playing out in his foreign policy – Barron Trump on X: *"No weapons for Ukraine, a Final Decision"*.

NATO enlargement – Jeffery Sachs unpacks US's uni-polar foreign policy.

Considering the Trump – Zelenskyy bust-up, the following summary provides some context to the security assurances against NATO expansion given to Soviet leaders by Baker, Bush, Genscher, Kohl, Gates, Mitterrand, Thatcher, and others.

NATO Expansion: What Gorbachev Heard



Michail Gorbachev discussing German unification with Hans-Dietrich Genscher and Helmut Kohl in Russia, July 15, 1990. Photo: Bundesbildstelle / Presseund Informationsamt der Bundesregierung.

In a recent address to a packed European Parliament, Professor Jeffrey Sachs (Columbia University) outlined the US's deliberate uni-polar policy following the collapse of the Soviet Union in 1990/91. That meant *"that the US ran the world and would not listen to anyone's views or heed any red lines or any UN framework"*.

He listed the *"many wars that the US had led and caused over the past 33 years and warned the audience of the harsh realities of American power and Europe's subordination"*.

Sachs recounted the history critical to understanding



the current Ukraine/Russian war:

- ✓ 9 February 1990 - "Gorbachev 'heard' that not an inch of NATO's present military jurisdiction will spread in an eastern direction",
- ✓ The counter by the US mass media was – "its door has been open to new members since it was founded in 1949 – and that has never changed",
- ✓ "In 1991 the US decided that NATO would enlarge eastward, step by step, from Brussels to Vladivostok",
- ✓ "In 1994 President Clinton formally signed off on NATO enlargement to the east",
- ✓ "1999 – Hungry, Poland, and the Czech Republic join NATO",
- ✓ "In 2008 – Nicolas Sarkozy and Angela Merkel blocked the admission of Ukraine and others to NATO",
- ✓ "In September 2021 the US decided to launch 7 wars in 5 years" (General Wesley Clark interview),
- ✓ "March 2023 the US and others launched 'shock and awe' against Iraq" – Netanyahu's role described,
- ✓ "2007 – the next NATO enlargement which included 3 Baltic states, Romania, Bulgaria, Slovenia, and Slovakia - Russia was pretty darn upset",
- ✓ "2008 – at the behest of the US, NATO welcomes Ukraine's and Georgia's aspirations for NATO membership",
- ✓ "2010 Victor Yanukovich was elected president of Ukraine and 'removed' in the 2014 Revolution of Dignity – infamous Victoria Newland taped call",
- ✓ Sachs offered "to tell anyone interested how the US blew up the Nord Stream pipeline",
- ✓ December 2021 – in reply to the press, Blinken said, "the US reserves the right to put military systems anywhere".
- ✓ "February 2022 – Russia invades Ukraine, 7 days later Ukraine leaves the negotiating table, influenced by the US and UK – remember Boris Johnson",

In explaining US foreign policy to the EU Parliament, Jeffrey Sachs reminded the audience of Kissinger's adage, "To be an enemy of the US is dangerous, but to be a friend is fatal". Sachs believes that "Trump is a great power, imperialist at heart and will cut war losses where needed". Adding that "Trump does not want a

loser in his hand and will end the Ukraine/Russia war".

On the Israeli/Hamas war Sachs maintains "that the 4 June 1967 Two State Solution is the only way forward". He is hoping that Trump will go that route. We think that this will be one of Trump's greatest challenges.

Sachs believes that "China is not an enemy, it is a success story and that is why it is an enemy". His advice to the EU Parliament is to "take control of its own policies and not to allow "Americans to control any of your institutions or policies".

28 February 2025 will be a date to remember.

On Friday global news outlets carried headlines such as "**the Trump-Zelenskyy meeting just blew up**". As if in preparation for the meeting, a week ago Trump shocked his European allies by openly backing Russia. Trump and Vance squared off against Zelenskyy in the Oval Office in the presence of the global press corps. It looked as though they had planned to ambush Zelenskyy in front of the global press corps. At the top of his voice Trump told Zelenskyy, "You're not in a good position, you don't have the cards right now, you're gambling with WWII". After a heated exchange with Trump and Vance, "the Ukrainians were instructed to depart despite their desire to continue the talks" – according to a White House official.

After the bust-up, in a joint statement European chiefs Antonia Costa and Ursula von der Leyen assured Zelenskyy that he was "never alone". "We will continue working with you for a just and lasting peace" they said. In addition, the British Prime Minister Keir Starmer vowed "unwavering support for Ukraine".

Zelenskyy refused to sign the deal "without any substantial guarantees", while transactional Trump seemed more intent on signing an agreement to jointly develop Ukraine's rich natural resources". Post Friday's bust-up, Ukraine received widespread support from Europe, outside of Hungary, the UK, Canada, Australia, and New Zealand, whilst Japan sat on the fence, describing the heated exchange as "unexpected and emotional".

The South China Morning Post reported that "Beijing maintained official silence on the Oval Office clash", while online commentators said that "the outburst reveals the dangers of relying on the US for security".

As geopolitical tensions rose, Democrat senators



described the Oval Office bust up as “*beyond disgraceful*”, “*an embarrassment for America and a betrayal of our allies*”, and “*Trump and Vance are doing Putin’s dirty work*”. Although the Republicans have a majority in the House and the Senate, Trump can expect strong opposition from the Democrats, and it will be interesting to see whether Trump will get 100% support from Republicans.

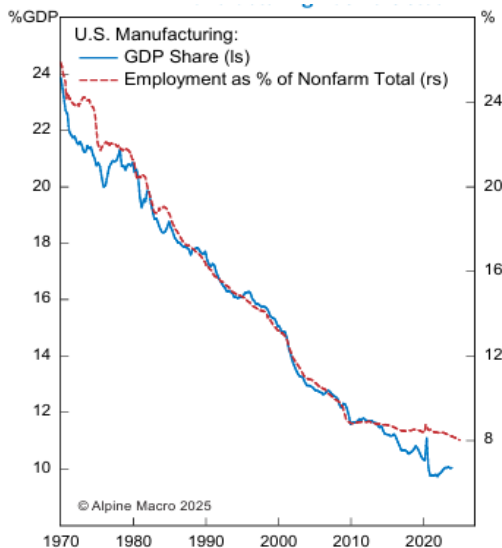
Following an emergency Sunday summit hosted by Britain, PM Kier Starmer said that the UK and France would lead a Coalition of the Willing, and that UK would play its part “*with boots on the ground and planes in the air*”. Starmer said that the western allies would discuss the plan with the US.

US manufacturing has long been in decline.

Trump feels that the US has been hard done by as in 1980 one in five workers were employed in manufacturing, whereas today only one in twenty are – see the Alpine Macro chart. But this was carefully planned by President Nixon and subsequent leaders and part of the plan for US global domination. Over the past fifty years the US rapidly globalized and urbanized and become a consumer-service driven economy.

Owners of US manufacturers benefitted from relocating to lower cost destinations in Asia and China, and together with US consumers benefitted from having the global reserve currency and being able to import cheap manufactured goods back into the US. Since Trump’s first presidential term, fearing a proliferation of tariffs, many manufacturers have relocated to Mexico and Canada.

The decline in US manufacturing has persisted.



Trump is annoyed because the US runs large trade deficits with China and the rest of the world, believing that everyone is lucky to have the large body of US consumers (about 18% of global GDP) buying their manufactured goods. That is true, but the reality is that cheap dollars are exported around the world that the US consumes far more than it can produce.

Trump’s barrage of tariffs is intended, in part, to protect or encourage the rebuilding of US manufacturing bases and create jobs – Make America Great Again (MAGA). This is a long-term project that requires a new skills base and security of raw materials (hence the Ukraine minerals deal). Furthermore, manufacturing jobs for humans are up against AI and robotics.

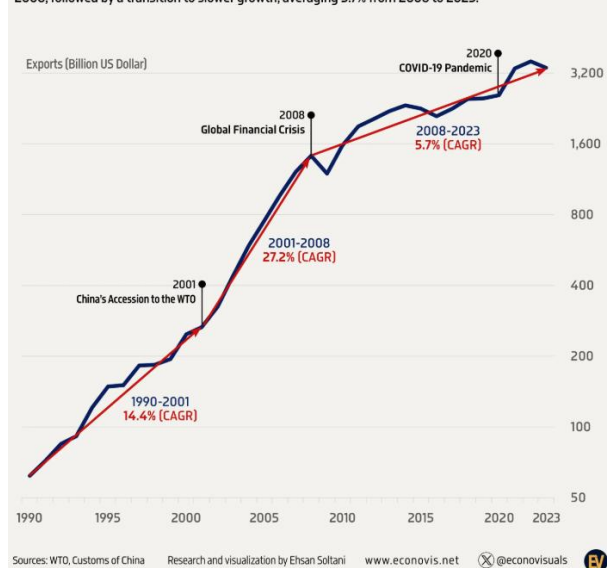
The net near-term impact of Trump tariffs and counter tariffs is impossible to gauge due to the interdependency of global supply chains, the degree to which consumers might use savings and more debt, and the relative moves in interest rates and currencies.

We think that aggressive tariffs could result in uncertainty and a reduction in real income. That is deflationary and may allow the Fed to cut rates rather sit tight. The extent and the timing of the Trump tariffs are a daily guessing game but should become clearer in the coming months. More uncertainty for markets to absorb.

The proposed Trump tariffs come at a bad time for China.

China Exports Shifted After Financial Crisis 2008

China experienced export boom with high annual growth of 27.2% from 2001 to 2008, followed by a transition to slower growth, averaging 5.7% from 2008 to 2023.





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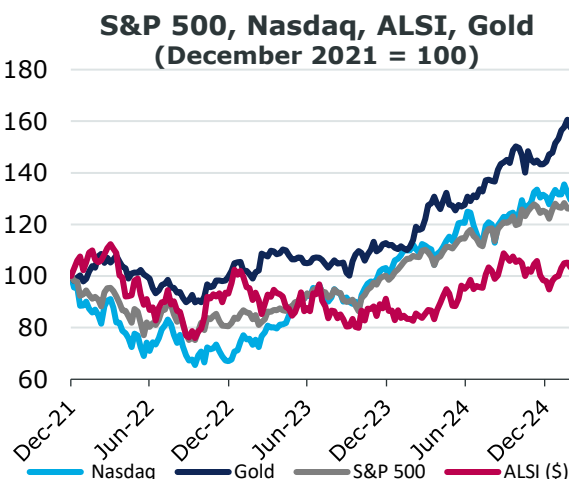
China's decades of miracle growth are over and manufacturing as a percentage of GDP has fallen from 32% in 2005 to around 25%, whilst its applied tariff rate on manufactured products has fallen from almost 35% in 1990 to about 6%. In the past Chinese industry benefitted immensely from an abundant and cheap labour supply pouring in from the countryside. This is over as the country's demographic profile has inverted.

Already China's economy has moved in a different direction where it is dominant in the refining of critical metals, renewables (solar, wind, and batteries) and EVs and Xi Jinping has re-engaged with the private AI/tech sector. The proposed Trump tariffs come at a difficult time for China and all of us that rely on China importing our commodities. China will expect and prepare for the worst – already we have news of China inquiring for additional volumes of commodities.

Lest we forget, Trump must still impose his peace and economic plan on Israel and Hamas, and this will include Saudi Arabia, the leading power in the Middle East. For investors, this is more wait and see.

US equity sell-off amid high valuations and uncertainty.

In a world of unprecedented uncertainty, year-to-date gold (+10%) and the JSE ALSI- $\$$ (+5%), leads the S&P 500 (+0.7%) and the Nasdaq (-1.6%) as investors begin to question the extended AI/tech equity valuations and heightened uncertainty around Trumps ambush of Zelenskyy.



South Africa hosts the G20 meeting.

Ahead of the G20 meeting, which he chose not to attend, US Secretary of State Marco Rubio wrote on social media that *"South Africa is doing very bad things. Expropriating private property. Using G20 to promote 'solidarity, equality, and sustainability'"*. Rubio's comments followed an executive order on 7 February, where Trump revoked all aid for South Africa – nearly \$440m was committed in 2023, the bulk of which went to the health sector.

In addition, there is the danger that South Africa loses its US trade benefits under AGOA. The US Department of Agriculture indicated that in 2023 *"approximately two-thirds of South Africa's agricultural exports to the US are exported tariff-free under AGOA"*. Last Thursday, CNN reported that *"President Ramaphosa was ready to do a deal with the US to repair their plummeting relations"*.

In his opening speech, President Ramaphosa introduced his G20 theme of *"Solidarity, Equality, and Sustainability"* and warned that *"the erosion of multi-lateralism presents a threat to global growth and stability"*.

President Ramaphosa also addressed the *"ongoing global conflicts, including the wars in Ukraine, Sudan, the Sahel and Gaza"* and stressed the need *"to advocate for diplomatic solutions. Our own experience as South Africa is that the peaceful resolution of conflict through inclusive dialogue is the foremost guarantor of sustainable, lasting peace,"* he said.

We are sure that many readers are wondering whether the President cannot use "inclusive dialogue" to fix our distressed and dysfunctional SOEs and to adopt sensible investment policies that will create employment for the millions of unemployed South Africans.

Gold continues to support the JSE All Share Index.

Year to date the rand gold has continued its uptrend (+8%) and boosted the RESI 20 (+12.8), followed by the INDI 25 (+5.2%), the ALSI (+3.6%), and in negative territory, the FINI 15 (-0.8%), and the SAPY (-2.2%).

Resource index has led the way in 2025 thanks to the ongoing performance of the gold price. The other indices have held up well, despite heightened geopolitics, Eskom loadshedding, and the budget



postponement to 12 March over plans to increase the VAT rate to 17%.

After the budget was leaked the Institute of Race Relations (IRR) said in a press release that South African taxpayers cannot afford to sustain 28 million grant recipients. The IRR release entitled "**SA needs a budget for the People**" said that *"with its anaemic economic growth, rising debt, failing service delivery, high crime, and record-high unemployment, South Africa cannot afford another year of 'business as usual'."*

In a recent Business Day article Michael Morris, head of media at IRR, pondered *"whether enough people know that while in 2001 there were 313 South Africans employed for every 100 grant recipients, two decades later, in 2023, that first number had plunged from 313 to 62"*.

Here's the IRR's 10-point checklist of what South Africans need in the 2025 budget:

1. A credible plan to reduce debt,
2. Softer social spending commitments,
3. No more bailouts for SOEs,
4. No more municipal debt bailouts,
5. Adjusting tax brackets for inflation, nothing more,
6. Reducing Value-Added Tax (VAT) from 15% to 11.5% by eliminating BEE "premiums",
7. No allocation for National Health Insurance (NHI),
8. A pro-growth, pro-jobs tax regime,
9. Real investment in infrastructure, and
10. A full commitment to private-sector-led growth.

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