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White Paper

GEOIntelligence

The focus of this Bancroft Capital GEOIntelligence White Paper is on the importance of evaluating multi-factor foreign relationships when formulating global business strategy.

Business execution and U.S. government policy are increasingly correlated based on national interests. Corporate board and executive understanding of the direct and indirect relationships between allies and partners supports situational risk assessment for long-term global corporate investment decisions, and their influence on resource supply and consumer demand.

Key Points:

- Central to the relationship between business and government policies are the United States' extensive network of alliances, and to a lesser extent, partnerships – this broad network directly informs the magnitude of risk inherent in transacting with a country or set of countries.
- Europe is a special case. Many, but certainly not all U.S allies, are in Europe:
    - Mutual investment is the backbone of transatlantic economy and dwarfs trade other places; U.S. and Europe combined makes up over 35% of global GDP; 61% of U.S. investment is in Europe; 64% of European investment is in the U.S. – this 4x more than all of Asia and 12x more than China invests in the U.S.
    - Of note, the transatlantic economy generates $5.9 trillion in sales and S1.7 trillion in services.
    - Thus, Europe has symbiotic relationships critical to U.S. prosperity, and mutual interests/security.
- Corporate boards are focused on risks associated with brand, supply chain, safety, cyber risk, and regulatory compliance. Mapping a company's business model from supply chain through customer volume and experience based on global relationships is an indispensable exercise for risk assessment and strategic decision making.
- Geopolitical conflict and competition create the conditions where U.S. national interests collide with economic volatility, uncertainty, complexity, and ambiguity. Corporate leaders can benefit from considering these contemporary flashpoints and through the lens of U.S. Defense Treaties (Alliances) and Partnerships.
- Current flashpoints include Russia-Ukraine (Ukraine is a U.S. partner, not an ally), Russia-Moldova (U.S. partner), Russia-Baltics including Kaliningrad and the Baltics (Estonia, Latvia, and Lithuania are NATO allies), South China Sea, China-Taiwan (Taiwan is a U.S. partner), China-Philippines (the Philippines is a U.S. ally), Israel-Hamas and Africa (though debatable, Israel is more of a U.S. partner than an ally). Russia and China pose tremendous risk to triggering a crisis (and potentially violence) associated with these flash points. Russia remains an acute threat, while China faces strategic imperatives to diversify away from China's dependencies that affect its national security and economic leverage.
- In summary, globe-strategic positioning is increasingly complex. Complementary situational analysis tools using diplomatic, military, and business concepts are recommended to navigate the dynamic globe landscape. A key factor in the situational strategic analysis is the bilateral and multi-lateral country relationships that exist and are evolving.

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DEFINITIONS:

When considering the United States' network of allies and partners, business and governmental leaders might benefit from these definitions:

Alliance: is a formal agreement between two or more states for mutual military, political, and economic support codified in a treaty.

Treaties: are the formal documents that legalize an alliance between nations, or between nations and international organizations, that formalize the signatories' obligations to each other. They can be between two countries (bilateral) or between many countries (multi-lateral). Of note, the U.S. has many agreements that include obligations related to everything from commerce, defense, extradition, and the environment. The most consequential agreements are the seven defense treaties (descriptions to follow).

Ally: a sovereign or state associated with another by treaty. The most significant point related to allies is that in mutual defense treaties all parties agree to go to war to defend each other. Examples of allies include the 32 NATO allies, Japan, South Korea, Australia, New Zealand, Philippines, and so on.

Partner: a nation that the U.S. provides significant support but lacks a formal treaty and, crucially, has not pledged to defend militarily. Examples of such partners include Taiwan, Israel, Saudi Arabia, Georgia, Moldova, and Ukraine.

ACTIVE U.S. DEFENSE TREATIES:

Focusing specifically on treaties applicable to the United States, according to the U.S. State Department, there are seven currently active U.S. defense treaties:

North Atlantic Treaty:

- Signed April 4, 1949. The Collective Defense Clause (Article 5) of this treaty states that an armed attack against one or more of the signatories shall be considered an attack against all.
- Parties: United States, Albania, Belgium, Bulgaria, Canada, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Montenegro, Netherlands, Norway, North Macedonia, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Turkey, and the United Kingdom (UK).

Philippine Treaty:

- Signed August 30, 1951. Parties recognize that an armed attack in the Pacific Area on either of the nations would be dangerous to its own peace and safety and each party agrees that it will act to meet the common dangers in accordance with its constitutional processes.
- Parties: United States and Philippines.

Agreement Between the United States, Australia, and New Zealand:

- Signed September 1, 1951. Whereby each party recognizes that an armed attack in the Pacific Area on any of the Parties would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional processes.
- Parties: United States, Australia, and New Zealand.

Republic of Korea Treaty:

- Signed October 1, 1953. Each party recognizes that an armed attack in the Pacific Area on either of the Parties would be dangerous to its own peace and safety and that each Party would act to meet the common danger in accordance with its constitutional processes.

- Parties: United States and Korea.

Southeast Asia Treaty:

- Signed September 8, 1954. Each party recognizes that aggression by means of armed attack in the treaty area against any of the Parties would endanger its own peace and safety and each will in that event act to meet the common danger in accordance with its constitutional processes.

- Parties: United States, Australia, France, New Zealand, Philippines, Thailand, and the UK.

Japanese Treaty:

- Signed January 19, 1960. Each party recognizes that an armed attack against either Party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes. The treaty replaced the security treaty signed September 8, 1951.

- Parties: United States and Japan.

Rio Treaty:

- Signed September 2, 1947. Provides that an armed attack against any American State shall be considered as an attack against all the American States and each one undertakes to assist in meeting the attack.

- Parties: United States, Argentina, Bahamas, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Peru, Trinidad & Tobago, Uruguay, and Venezuela.

ECONOMIC ASPECTS:

Within the global business environment, there is an increasing correlation between business execution and U.S. government policy; in fact, corporate leaders and board members regularly balance strategic decisions with consideration for U.S. policies based on national interests. For instance, where recent government policy has focused on sanctions, tariffs, ownership disclosures, and access to resources; businesses must account for these factors in their own strategies, risk calculus, diversification of global revenue mix, supply chains, manufacturing facilities, outsourcing relationships, and foreign direct investments.

Central to the relationship between business and government policies is the United States' extensive network of allies, alliances, treaties, and partners; a network that directly informs the magnitude of certainty or risk inherent in transacting with and investing in any one country or set of countries. Country-to-country relationships are complicated and impacted by unique strengths, weaknesses, dependencies, vulnerabilities, and events. They are also inherently complex, influenced by factors such as geography, national and economic security, history, and culture. For U.S. businesses crafting strategies that consider governmental policies, a thorough understanding of the of the United States' relationships with relevant countries and regions is crucial.

As businesses have considered the current and future state of global affairs, such as supply chain issues related to the pandemic or regional and global unrest in Eastern Europe and the Middle East, they have brought agile tactical plans to the forefront of risk conversations, as well as the possibility of near-shoring critical dependencies. And while tactical plans can be and have been effectual in the near-term, long-term investment decisions such as manufacturing facilities, customer care centers, and innovation hubs are much more difficult to make since they incur significant long-term investment risk.

Corporate boards focused on risk associated with brand, supply chain, safety, cyber risk, and regulatory compliance are all impacted by the locations where and organizations with whom they do business. As a result, mapping a company's business model from supply chain through customer volume and experience based on global relationships is indispensable for proper risk assessment and informing strategic judgment for decision making. Some specific areas and factors for business leaders to consider include:

- Customer revenue and relationships: U.S. largest exports are with Canada, Mexico, and EU.
- Supply chain dependencies: U.S. largest imports are with China, which has the highest U.S. trade deficit.
- Natural resources access: Such as energy, minerals, and agriculture products.
- Asset placement risk: U.S. based or outsourced country investment and risk of loss.
- Innovation/IP Protection: Protecting assets while participating in global knowledge ecosystems.
- Rule of Law and rights: Protection of human and property rights.

Of course, the areas of focus depend on each company's industry, value chain, and global exposure. A strategic situational analysis should include country opportunities and risks based on bilateral and multidimensional relationships within the business model ecosystem. From a regional perspective, scenarios for analysis and decision making can be developed through the following framework of geographic regions, key players, opportunities, and risk.

Geography	Key Players	Opportunities/Risks
North America	U.S., Canada, Mexico	U.S. highest trade partners; border security
South America	Brazil, Colombia, Chile	Market development; borders
Europe	UK, EU, and Russia	Strong trade partners; Europe safety
Middle East	Israel, Arab States and Iran	Energy sources; innovation; safety
Africa	South Africa; Sudan	Rare minerals
Asia	China, Japan, South Korea	Large trade partners
Asia	Taiwan, India, ASEAN	Investment in U.S.; IP; rare minerals
Asia	Australia	Economic security; technology
Antarctica	U.S., Europe, Russia	Resources; infrastructure
Space	U.S., China, Russia	Resources; infrastructure

A key takeaway of this White Paper is that in formulating global business strategy, it is essential to evaluate multifactor foreign relationships with the U.S. or relevant home countries. Understanding the direct and indirect relationships between allies, alliances, and partners supports situational risk assessment in long-term global corporate investment decisions. A current example that highlights this global relations analysis is the significant flashpoint in the South China Sea and the overall China relationship with the U.S. and its allies and partners. In this example, the multifaceted critical factors are:

- Significant dependencies on Chinese exports to the West.
- Micro-chip manufacturing concentration in Taiwan, which is currently threatened by China.
- Manufacturing outsourced to China across key industries including technology, pharmaceuticals, steel, and construction.
- Rare mineral concentration under Chinese ownership and control.
- Chinese foreign direct investment in the United States' multiple asset classes.
- Chinese aggression to the Philippines.

Each of these factors presents significant national and economic security risks for the U.S. and its allies; the strategic implication is the need for diversification from China dependency for security and economic leverage purposes. The U.S. government has already established economic policies to incentivize U.S. businesses to diversify imports and manufacturing through tariffs and onshoring stimulus for semiconductor production. In 2022, President Biden issued an Executive Order with bipartisan support for a $50B Chips Fund for semiconductor manufacturing in the U.S. Globalwafers, a Taiwan manufacturer, has announced a facility in North Texas with construction beginning this year.

FLASHPOINTS:

Considering the context of existing allies, treaties, and partners, corporate leaders might benefit from reviewing some of the implications of key contemporary flashpoints. These flashpoints are not only volatile, uncertain, complex, and ambiguous now, but they possess great potential to remain so long into the future.

The Russia-Ukraine War created political, military, and economic uncertainty and a response by alliances such as the North Atlantic Treaty Organization (NATO nations responded bilaterally – NATO itself did not respond) and the European Union (the EU and U.S. are partners, specifically trading partners), in addition to informal partnerships among the G7 partners who are not members of either NATO or the EU (e.g. Japan) or any of the "Big 3" (to include Australia). The maneuvering of other political economic alliances such as the Gulf Cooperation Council (GCC) nations have been clear they are not taking sides with Russia or Ukraine and see it as an opportunity to enhance their political and economic influence in the region and globally.

In the near term, organizations must assess the risk in their supply and finance chains to ensure they are not directly violating economic sanctions applied by the UN, EU, G7, and NATO nations (see Bancroft report on sanctions at Bancroft GEOIntelligence White Paper on Sanctions) or indirectly contributing to breaches through third parties. In the long term, long-lead investments may end up being diverted to labor markets with higher costs due to the uncertainty and instability of safety and security in and near Ukraine, Russia, and border nations.

South China Sea instability and uncertainty, propagated by increasing aggression by China has created the potential for miscalculations among nations and their allies and partners. (See Bancroft Capital White Papers on the Global Commons and China Bancroft GEOIntelligence White Paper on Global Commons and Bancroft GEOIntelligence White Paper on the Three Strategic Competitors.)

China-Taiwan: The primary flashpoint is China's direct aggression with Taiwan. Although the U.S. does not have a formal bilateral defense treaty or formal alliance with Taiwan, the U.S. policy interpretations and implementation of the Taiwan Relations Act of 1979 was not a treaty per se, but was intended to help defuse China's ambition to subjugate Taiwan. The ambiguity of the U.S. policy has enabled Taiwan to thrive economically, politically, and democratically while also justifying the U.S. to support Taiwan to fund, equip, and prepare for its own defense.

China-Philippines: Besides the United States' bilateral defense agreement, the Philippines has bilateral defense treaties with Japan and Australia. Although most of the attention on China's intimidation of its neighbors has focused on Taiwan, China has also been exerting more aggressive and coercive tactics throughout the South China Sea; much of it directed toward the Philippines.

Should China, the United States, or nations with claims in the South China Sea escalate beyond intimidation and coercion to armed conflict, defense alliances and partnerships could trigger wider involvement, including the Shanghai Cooperation Organization and the AKUS nations. This scenario could lead to direct conflict with NATO countries like the U.S. and the UK, and Russia and China. Although China continues its aggressive and coercive behaviors toward Taiwan and the Philippines, its actions to intimidate or impede U.S. freedom of navigation and air operations have been less aggressive recently. In the near term, it is in the interest of China and the rest of the world to continue to maintain the South China Sea as a safe route for commercial shipping. In the long run, commercial investment might mitigate risk by reshoring or shifting offshoring to locations with respected and sustainable rules-based economies and labor markets such as India and Indonesia.

Israel-Hamas: The war in Gaza (see Bancroft GEOIntel "Flash" Executive Summary on Strategic Escalation in the Middle East) has created tension among military and economic allies and adversaries and their support priorities. While the initial reaction to Israel's offensive operations in response to the Hamas attacks was muted by members of the Gulf Cooperation Council (GCC), the growing humanitarian crisis in Gaza has created opportunities for member nations of military and economic alliances to become more vocal in their concerns with the Israeli response. The UN Security Council has also seen competition between the United States and nations such as China and Russia in competing resolutions about the conflict.

In the near term, commercial imports and exports in and through the region will continue to be high risk because Iranian-backed groups continue to threaten commerce in the Red Sea and the Strait of Hormuz. The GCC nations of Qatar and Saudi Arabia are key players in brokering stability among the Arab nation and Iran. Investment in off shoring labor in the region are high risk until political and economic stability can be reasserted. Expect a greater humanitarian crisis to emerge in Gaza and surrounding nations.

Africa: Competition remains for mining, energy, and security natural resources. Although NATO and the African Union have a long-standing relationship, Africa is a place where alliances are experiencing great power competition. According to a report published by the European Parliamentary Research Service, since 2015 Russia has signed military cooperation agreements with 43 African countries (for addition context, see the report on the Global South: Bancroft GEOIntel White Paper on the Global South).

According to the European Parliamentary Research Service, "Russia's engagement on the continent can be characterized as both opportunistic and strategic, focused exclusively on measures that are both low-cost and high impact. It takes advantage of shifting societal, political, and security fissures across the continent, leveraging local elites who seek external sponsorship without democratic strings attached, and exploiting – and magnifying – African grievances towards ex-colonial powers."

In the near term, investment in Africa creates opportunities for natural resource extraction and processing, and the development of or exploitation (depending on perspective) of inexpensive labor and production. There are also several cases of political and military instability that are being exploited by China, Russia, and opportunistic authoritarian regimes. Long-term investment in education, economic stability, and governance provides opportunities in sustainable production and the extraction and processing of natural resources and growth that can address poverty and consumer demand. The continent is a political, economic, and social battle ground where authoritarianism is in direct competition with free markets and democratic ideals.

FORCAST AND IMPLICATIONS:

- In summary, globe strategic positioning has become increasingly complex. Complementary strategic situational analysis tools using diplomatic, military, and business concepts are recommended to navigate the dynamic globe landscape.
- Evaluating strategic alternatives of on-shoring, near-shoring, and using other parts of the world to increase supplies and reduce dependency to provide increased national and economic security is critical for all businesses to consider in their strategic planning.
- A key factor in strategic analysis is the bilateral and multi-lateral relationships that exist and are evolving. Feasibility studies, business cases, scenario analysis, risk mitigation, and contingency exercises, can be strengthened with consideration of the U.S. and its allies' strategic position through the lenses of these multi-factor relationships.
- Understanding alliances and assessing risk in the context of their influence on resources and consumer supply and demand is critical for corporate boards and executives.
- Such understanding relates directly to the economy, where not only land, sea, air, cyber and space matter, but also economic competition becomes a form of conflict short of war, enabling corporations to better:
    - Develop, execute, and assess their strategies.
    - Conduct risk assessment.
    - For more details, please see Bancroft GEOIntel White Paper on the Intersection of National Security and Corporate Strategies.
- Sector and industry scenario development and red teaming based on product development, geographic factors, and the impact of alliances and partnerships will be increasingly critical to successful business development and execution.
- Business leaders must identify and account for strengths, critical vulnerabilities, critical requirements, and opportunities in relation to allies, treaties, and partners. This will impact the calculus of decision making among industry sectors and lines of businesses such as: supply chains, energy (renewable and fossil), resources, service centers, manufacturing, financing, and direct foreign investment.

- Sustaining low costs, protection of investment, and diversification will yield competitive advantage to the degree that business leaders consider the variation of impacts of alliances, treaties, and partners.
- China will remain the greatest risk to triggering flashpoints with and among networks of allies, treaties, and partnerships, followed by Russia.