Geoeconomic competition and new wealth of nations

On 250th anniversary of Adam Smith's Wealth of Nations

A protester holds a portrait of Iran's martyred Leader Ayatollah Seyyed Ali Khamenei in Baghdad, Iraq, during a protest against US and Israeli attacks on multiple cities across Iran, on February 28, 2026.
● HADI MIZBAN/AP

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OPINION

The inability of the US and Israel to effect a quick regime change in Iran has shown the limits of physical force. They thought they could repeat in Iran what the US was able to achieve a few months earlier in Venezuela. Israel's success with decapitation attacks in Gaza and Lebanon after October 7 and in Iran last June gave hope that by killing Ayatollah Seyyed Ali Khamenei and other leaders, the Iranian government would quickly collapse. It did not happen. Iran had learned from bitter experience to decentralise its command-and-control network. The Ayatollah himself chose the path of martyrdom and galvanised the Iranian people by his death in the tradition of Shia saints like Ali, Hussein and others.
In Europe, the war in Ukraine marked the limit of NATO's eastward expansion. I remember the speech Putin made a few days after Russian forces attacked Ukraine on February 24, 2022, explaining that the special operation was to forestall a repeat of Operation Barbarossa in June 1941 when Hitler unleashed a great land offensive against the Soviet Union. I remember the recollection of a German general who was my adviser in the Singapore Armed Forces of his experience during Barbarossa. He was then a lieutenant in Hitler' army. Wehmarcht units were received with flowers when they first entered eastern Ukraine. However, this welcome did not last long. Whatever was Putin's objective, Russian military power also found its limit in Ukraine. The unfortunate result of earlier NATO policies and Russia's attack is an inevitable partition of Ukraine and the injury and death and of millions of young men.
The wars in Ukraine and the Middle East have revolutionized warfare, in particular, the use of drones, smart missiles and AI. Tanks are increasingly hard to defend. US aircraft carriers are clearly vulnerable when they deploy too close to Iran or Yemen. Iran might have been able to sink one or two with their heavy missiles working in conjunction with drone swarms but probably decided not to as this would have defeated their strategy of dividing the enemy.
Instead, Iran inflicted heavy damage on US land bases in the Persian Gulf. It is doubtful if these bases will be fully rebuilt. For the US, rebuilding and hardening will be very expensive. For host countries, this will only invite future attacks. The Pax Americana beneath which much of the world, including China, developed for decades is maintained by a network of hundreds of US military bases around the world. Once bases begin shutting down, entire regions will be destabilised before new equilibriums stabilise.

US retreat

For example, the inability of the US to subdue Iran, partly on behalf of Israel, must affect the way the people of Taiwan view cross-strait relations with China. Unless China behaves egregiously, the US will not go to war with China in aid of Taiwan independence. The US military establishment knows from repeated battle simulations that it cannot prevail without nuclear weapons. US aircraft carriers operating near Taiwan will be much more vulnerable than those operating near Iran.
In anticipation of a different future, the countries on the western Pacific including Japan and Australia are re-triangulating their longer-term strategic positions.
US national debt is now nearing $40 trillion and growing. The money servicing that debt already exceeds the US defence budget. Ukraine is now described as a distant war on another continent. NATO countries are required to spend 5% of GDP on defence. In the Pacific, Secretary of War Hegseth at the recent Shangri-La Dialogue asked US allies to increase their defence spending to 3.5% of GDP.
Sensing its own financial weakness, the US is retreating into its own hemisphere under a new Monroe Doctrine, which President Trump egotistically called the Donroe Doctrine. It was articulated in the US National Security Strategy paper issued last year. The implementation of that strategy is opportunistic, in fits and starts, with episodic calls to take over Greenland, incorporate Canada and Venezuela, force regime change in Cuba. Columbia may also not be able to resist. However, it is unlikely that the Donroe Doctrine can extend to the greater part of South America because Brazil will remain a regional pole of its own.
Europe has been reluctant to reduce its dependence on the US but is increasingly forced to do so. Once Europe builds up its own military capabilities, it will have its own policy on Russia, the Middle East, China and Africa. A Europe less dependent on the US may become more united. How Europe applies a united weight on the scales of global politics in a multipolar world may make the difference between war and peace in some parts of the world.
We do not know how future US administrations will change course but a reversal of direction is unlikely. Much will depend on the performance of the US economy, by which I refer not to financial markets but to the real economy. For a few years, it was thought that AI could give the US such an assailable advantage that the US pre-eminence in the world might continue for a long time. I will talk about this later.
It is often said that no one should bet against America. Maybe. No one knows, not even many Americans themselves. A strategic retreat skilfully carried out, while preserving the status of the US dollar as global reserve currency, will create better conditions for national recovery. If the sun must set, let it be a long sunset, and, for some of us, may it quickly rise again.

China's rise

China's rapid rise is deeply unsettling to many in the West. Japan's earlier rise was roundly defeated, and the country virtually incorporated into the western sphere. In contrast, China is a much bigger country with a much larger population and has largely caught up with the rest of the world in almost all fields of science and technology. It is only behind the US in military strength. To many Americans, China poses an existential challenge to US supremacy.
Many American strategic thinkers see US competition with China in zero-sum terms. You live, I die. I live, you die. When President Xi met President Trump in May, he posited the Thucydides Trap as a choice. China will respond to the choice the US makes. China's overwhelming preference, however, is for a positive-sum future, what Xi calls "humanity with a shared future for mankind". Trump does not see the future as necessarily zero-sum and is therefore prepared to deal with China, not only because of the short-term need for rare earths but for the long term as well. Future US administrations may take a different position. China's approach is to hope for the best but be prepared for the worst.
China, in its own history, has always had to live with other powers in the world. Tang China had no equal in the world in its time, but, after a major defeat by the Abbasids in Central Asia in the 8th century, no Chinese army ever crossed the Tianshan mountain range again. China has always been a largely self-sufficient internal universe, seemingly able to carry on without the rest of the world. Dynasty after dynasty built great walls to keep invaders out. Over long centuries, Chinese statecraft was largely defensive. In the Chinese mind, hegemonic ambitions eventually lead to self-destruction. When Chinese tell Americans that they have no intention of replacing the US in the world, it is not out of inability or humility but of conviction.
China, in fact, wants a strong Europe and a strong Euro, knowing full well that such a Europe will be more independent of the US and share greater common interest with China. It wants Europe to be a separate pole of its own even though it knows that Europe will always be closer to the US because of history and culture. China sees India, like itself, an ancient civilization, to which it owes the light of Buddhism. China wants Brazil to be an independent pole not only as a counterweight to the US but also as a complementary economy.
China's rise is quickening the crystallisation of a multipolar world. Provided the US remains primus inter pares, such a world may be healthier for everyone. For smaller countries like Singapore, a multipolar world will give us greater freedom of action and make it easier for us to retain our distinctiveness. By its restraint on centralized power, a multipolar world better protects the principle of subsidiarity.

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President Donald Trump (L) joins his Chinese counterpart, Xi Jinping, in front of the Temple of Heaven in Beijing, China, on May 14, 2026.
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