

Q2 2025 | Thematic Specialist Morten Springborg

Control, Alt, Delete Pax Americana

"How did you go bankrupt?" Bill asked. "Two ways," Mike said. "Gradually and then suddenly."

Ernest Hemingway, *The Sun Also Rises*, 1926.

Key insights:

- The US-led global order of Pax Americana is being rebooted by the Trump administration and replaced by a multipolar world.
- Tariffs, transactional foreign policy, and abandonment of multilateral commitments have weakened alliances, fractured global trade, and undermined the dollar's credibility as a global currency anchor.
- The US's twin deficits and China's trade surplus are symptoms of structural flaws: suppressed consumption and inequality in China, and debt-driven overconsumption and deindustrialisation in the US. Sustainable rebalancing will require wealth redistribution, higher consumption in surplus nations, weakening of the US dollar and lower consumption, and strategic industrial policies in the US - tariffs alone cannot achieve the needed rebalance.
- As globalisation goes into reverse, the winners from globalisation - platform companies, will face headwinds, while national champions will be favoured because of their more defensible business models.
- The US will go from being a destination for capital to becoming a source of capital. For investors, now is the time to allocate to international equities.



“

Pax Americana, built after World War II on military dominance, trade interdependence, and the dollar's reserve status, is disintegrating due to unilateralism, institutional withdrawal, and economic nationalism.

The US-led global order, Pax Americana, built after World War II on military dominance, trade interdependence, and the dollar's reserve status, is disintegrating due to unilateralism, institutional withdrawal, and economic nationalism.

The **Ctrl+Alt+Delete** metaphor for Pax Americana captures the ongoing rebooting of a global system paralysed by dysfunction and conflict. Why is this happening now, and why did so few people see this only a few months ago? The brief yet poignant exchange above from Ernest Hemingway's 1926 novel "The Sun Also Rises" captures a fundamental truth about the nature of change and transformation in our lives and the world around us.

The idea that major shifts happen "slowly at first, and then all at once" has resonated across literature, economics, relationships, and nearly every facet of human experience.

At its core, Hemingway's observation speaks to the nonlinear way complex systems often evolve. Whether we're talking about technological progress, societal upheaval, or the decline of civilisations, the most consequential changes tend to follow a similar pattern - a long, gradual buildup followed by a sudden and dramatic tipping point few saw coming.

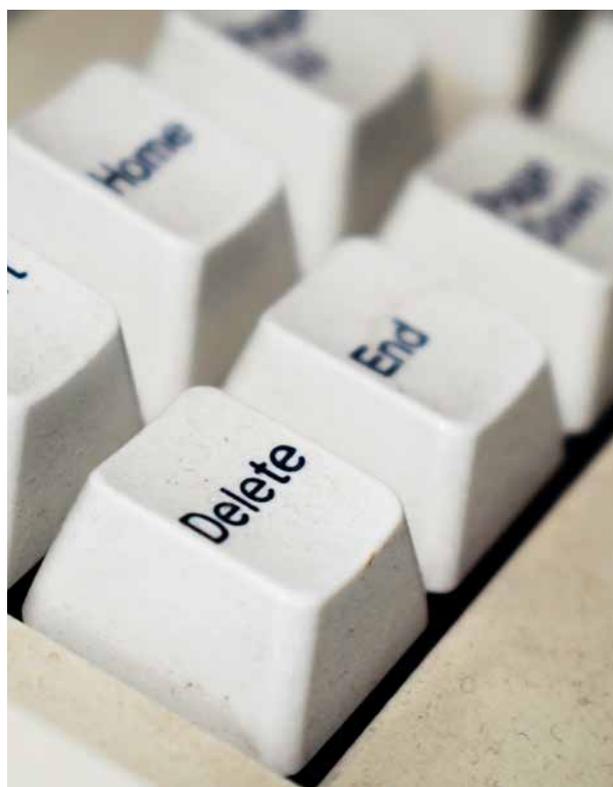
The post-WWII *Pax Americana* - a US-created and led order built on military dominance, alliances, and economic interdependence through trade - is rapidly being dismantled by the US. Key symptoms include:

1. Debt explosion and economic fragmentation: Aggressive US tariffs have been initiated as a solution, but will accelerate decoupling and regional trade realignments instead.

2. Erosion of consensus: Traditional allies increasingly question US reliability amid Trump's "America First" policies, while rivals like China and Russia exploit power vacuums.

3. Institutional collapse: Withdrawal from multi-lateral agreements (Paris Accords, WHO), unprecedented threats of annexation of Canada, Panama and Greenland, and attacks on NATO have weakened the rules-based order.

This sudden "freeze" mirrors a personal computer crash: the system cannot function without intervention. A reboot is inevitable, but unlike in the case of a personal computer, where one would expect the old operating system to reappear, the ongoing reboot of our economic system is guaranteed to return to a new operating system.





This paper examines the likely consequences following the current system's reset. Many observers argue that predicting Donald Trump's actions is almost impossible, given his highly transactional and unpredictable way of dealing with opponents. Therefore, attempting to forecast developments over several years is challenging and fraught with the risk of major misjudgements.

Nevertheless, we contend that several underlying "certainties" will shape the direction of travel, and that recent events can't easily be rolled back and most likely will have permanent consequences.

The emerging world will be profoundly different from the one we have grown accustomed to over recent decades, with established narratives fundamentally altered by this new era of the Rise of the Nation State. To identify the "certainties," we need to understand the current system's flaws.

From Bretton Woods to Control, Alt, Delete Pax Americana

The Pax Americana, anchored by the US dollar's reserve currency status, was born in the ashes of World War II at the Bretton Woods meetings in 1944. As warned by John Maynard Keynes at the time, and later by Robert Triffin (of Triffin Paradox fame), the system has fostered a self-reinforcing cycle of imbalances that threatens the long-term stability at the centre of our economic system.

“

The system has fostered a self-reinforcing cycle of imbalances that threatens the long-term stability at the centre of our economic system.

By enabling structural overvaluation of the dollar, the system has eroded US manufacturing competitiveness, fuelled overconsumption, resulting in a debt-driven model reliant on foreign capital to finance growing deficits.

Service economy and overconsumption

The hollowing-out of manufacturing coincided with a shift to a service-driven economy, which now constitutes almost 80% of US GDP¹. This transition prioritised sectors like finance and healthcare over the production of goods. Cheaper imports fuelled consumer spending, widening the current account deficit to \$1.1 trillion (3.9% of GDP) in 2024.² The US net international investment

1 [USA Share of services - data, chart | TheGlobalEconomy.com](#)

2 [United States Current Account](#)



position, the difference between US residents' foreign financial assets and liabilities, was $-\$26.23$ trillion or 93% of GDP at the end of 2024, as foreign investors financed deficits through purchases of US assets like treasuries and equities. Low interest rates, sustained by capital inflows, further inflated asset prices and encouraged debt-fuelled consumption, creating a feedback loop.

The platform economy and tax avoidance

The rise of the platform production model—R&D in the US, manufacturing in China, global sales, and tax booking in low-rate jurisdictions like Ireland—exacerbated these imbalances. This model maximised corporate profits and shareholder value while undermining domestic tax bases and labour markets. Ireland's role as a "centre of corporate tax avoidance" allowed firms to pay effective rates as low as single-digit percentages. This forced governments to seek alternative revenue sources, such as tariffs, which are now being implemented. It can be argued that the trade deficits result from US corporations taking advantage of what globalisation offers regarding tax arbitrage and maximising shareholder value by outsourcing low-value-added processes to low-cost countries.

The "Certainties"

Michael Pettis, a prominent China-focused economist, analyses the US-China trade imbalance through structural savings-investment mismatches, arguing that both countries' current account positions are inextricably linked and rooted in domestic economic policies.

China's persistent surplus is driven by excessive savings, which are driven by income inequality and suppressed household consumption. This forces the economy to rely on production exceeding domestic consumption, externalised as trade surpluses. Post-2008, China addressed falling external demand by ramping up debt-fueled infrastructure and real estate investment, worsening overcapacity and savings-investment gaps. By 2024, China's debt-to-GDP ratio reached more than 300%.

The US deficit mirrors the policies of surplus nations. Surplus countries like China channel excess savings into US assets, suppressing interest rates and inflating asset prices. This fosters overconsumption and deindustrialisation, as manufacturing shifts to surplus economies. By 2025, US net foreign liabilities reached 93% of GDP, sustained by foreign demand for dollar-denominated assets.

“

Resolving this requires addressing the root causes – exchange rates, income inequality in China, and fiscal profligacy in the US – rather than resorting to tariffs or protectionism.

This creates a feedback loop: cheap capital fuels consumption, widening the deficit further.

US tariffs alone cannot resolve deficits. China must address its internal imbalances by boosting household income and consumption through wealth redistribution (e.g., higher wages, social safety nets) to reduce savings and rebalance growth from exports and debt-driven investment. The United

States needs to address low savings rates and industrial policy gaps. Tariffs will be counterproductive. Instead, multilateral coordination is necessary.

Resolving this requires addressing the root causes—exchange rates, income inequality in China, and fiscal profligacy in the US – rather than resorting to tariffs or protectionism.



Lower consumption in the US and higher consumption in the rest of the world

The macro impact of this rebalancing will lower consumption in the US, which will meaningfully impact US corporate profitability, as described in our recent Insight.³ This will, at least in the mid-term, further handicap the narrative around US Exceptionalism. Companies exposed to private consumption in China will flourish if the needed rebalancing of growth away from exports and investments towards consumption happens. The Chinese government is fiscally stimulating the economy, but more will be required to drive structural change.

In some ways, Europe is in the same situation as China. Europe has too low consumption and a high dependency on external demand via exports to China and the USA. In a fragmenting world economy, Europe needs to develop a new growth model that will be more internally demand-driven. As we wrote in the quarterly report cited above, this is happening. After 15 years of austerity since the GFC, Southern European countries have rebalanced and have started to show robust growth. Furthermore, the US administration's falling commitment to NATO and aggressive tariff initiatives has focused the minds of politicians and populations. In a televised debate following his recent election victory, the German chancellor,

Friedrich Merz, spoke of the need to “*Strengthen Europe as quickly as possible so that we can be independent of the United States of America.*”

China’s, Germany’s, and the US’ consumption shares of GDP are around 40%, 50%, and 70%, respectively. These levels will have to converge to rebalance the world economy, likely in a more fragmented global economy going forward.

The dollar will weaken.

It is incongruous to have both large trade and capital imbalances in a deglobalising world where the major players can’t trust that the other major players won’t cut them off from the items they need or pay them the money they are owed. The old

monetary/economic order in which countries like China manufacture inexpensively, sell to Americans, acquire American assets, and Americans borrow money from countries like China to make those purchases and build up huge debt liabilities will have to change. These unsustainable circumstances are made even more so because they have led to a deterioration in American manufacturing, requiring America to import needed items from a country it increasingly sees as an enemy. These big trade and capital imbalances will have to shrink in an era of deglobalisation.

A single dominant currency is not the only possible outcome; scenarios involving multiple leading currencies remain plausible. Today, the core structures of the new trade architecture are beginning



It is incongruous to have both large trade and capital imbalances in a deglobalising world where the major players can’t trust that the other major players won’t cut them off from the items they need or pay them the money they are owed.

Figure 1
US Real Trade-Weighted USD (GSUSDRTW)



Source: Bloomberg, 31 March 2025

to appear, allowing trade between two countries without any requirement for US dollars. All that is needed is bilateral agreements between central banks. In this world, there is no need for a global currency. Instead, each country has credit lines in the currencies of its trading partners. In short, the centralised system based on the world currency is replaced by a decentralised system based on a series of bilateral agreements between central banks.

These bilateral agreements are rapidly proliferating. For example, the People's Bank of China has around 40 such agreements.

It is not just China opening swap lines. For example, Japan has signed a \$75 billion swap denominated in US dollars with India to insulate India from a future US dollar liquidity crisis without relying on the Federal Reserve.

What Ernest Hemingway said in the quote above about bankruptcy applies here, too: change is likely to come gradually, and then suddenly.

The US administration's policies are rapidly undermining the foundations of the dollar's global dominance. The US withdrawal from international organisations and agreements, cuts to foreign aid, weaponisation of the dollar against numerous countries, threats against FED independence, and the transactional approach to US security commitments have unsettled investors, allies, and rivals alike. At the same time, fiscal dysfunction in Congress has reached new heights, and markets are taking notice.

The current US administration's term started with the USD (on a trade-weighted basis), trading at its most expensive level ever, see figure 1 on previous page. So far in 2025, the dollar has depreciated by 5%. Perhaps, downgrading the dollar's status is the real goal, as Stephen Miran, chair of Trump's Council of Economic Advisers, has argued.⁴ Rebalancing trade with dollar depreciation will require a much



bigger move than what has been seen so far in 2025 and would have to be on a scale last seen in the aftermath of the Plaza Accord in 1985 to make a real difference.

US fiscal room for manoeuvrability is rapidly diminishing, and what matters for debt sustainability is a country's reliance on foreign financing, reflected in the tight correlation between global

“

The US administration's policies are rapidly undermining the foundations of the dollar's global dominance.

4 CEA Chairman Steve Miran Hudson Institute Event Remarks - The White House

bond yields and current account deficits. The US has been the exception to this rule, securing funding for its extreme twin deficits thanks to the dollar's exceptional status. However, the steady-state level of sustainable US fiscal deficits is decreasing due to recent policy disruptions. This reduces the flexibility of the US administration in pursuing an expansionary fiscal policy to support growth, much like when the UK had its Liz Truss moment in September 2022. US policy flexibility will become a lot more constrained going forward.

It is an oft-repeated phrase that a twin deficit country depends on the "kindness of strangers". This now applies to the US, but by extension, it will make the stability of US markets more dependent on non-confrontational foreign and economic policy to ensure their funding. This is at odds with the administration's new "foreigners will pay" attitude, which drives foreign investors away. The US administration will have to adopt a more conciliatory stance in international relations to maintain stability in the bond markets.

Ultimately, it is all about valuations

Recent price action in the US resembles EM-like characteristics, with a falling currency, bond and equity markets. However, unlike emerging economies, the US has no significant foreign currency liabilities that would lead to explosive debt dynamics. In contrast, currency and bond market weakness should lead to cheaper valuations and a new asset pricing equilibrium that becomes attractive for foreigners to invest. The dollar's biggest challenge is its starting point of high valuation and high foreign asset allocations. US equity markets recently peaked at nearly 70% of global equity markets, and a confrontational foreign policy approach. This, on balance, significantly raises the valuation adjustments needed to make US assets attractive again.

While it is premature to speculate what new international currency regime will eventually replace the current system, it is fair to say that the dollar system is losing share because of a loss of confidence, which will be challenging to rebuild.

“

The US administration will have to adopt a more conciliatory stance in international relations to maintain stability in the bond markets.



Regional security in the broadest form

The fracturing of globalisation will reshape trade flows, military alliances, and energy flows, potentially ushering in a tri-polar world order with competing spheres of influence, see figure 2, below.

- **US Bloc:** This bloc is anchored by the USMCA's tightened rules and 40% intra-bloc trade. Time will tell whether this will develop into a modern version of the Monroe Doctrine, where the US retreats to its hemisphere, or whether the US wants to deepen engagement with Asian countries to try to contain China.
- **EU Bloc:** Intra-EU trade accounts for 66% of total trade. European manufacturing is larger than US manufacturing, second only to China in absolute terms, and highly specialised. Europe dominates in capital goods like jet engines, elevators, gas turbines, and mining equipment, so contrary to popular belief, Europe is not 'industrially dead', but specialises in high-quality manufacturing.

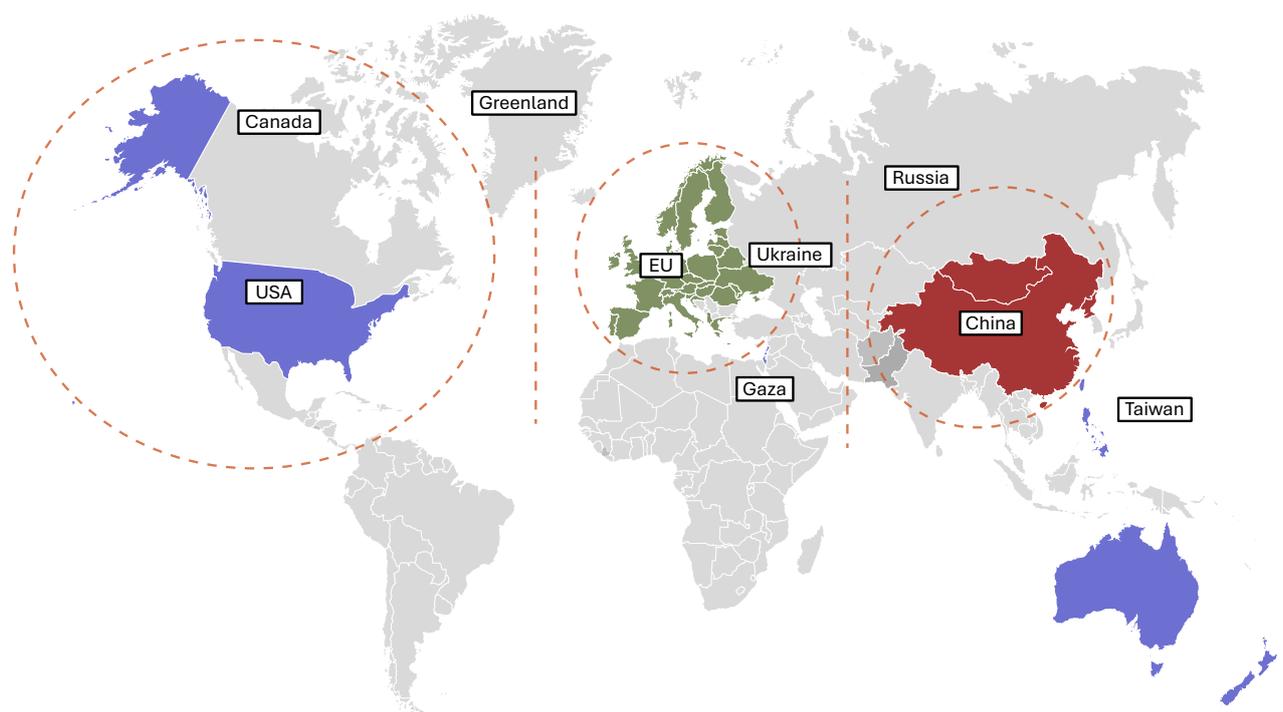
- **China Bloc:** Through RCEP and Belt and Road infrastructure, China consolidates Asian manufacturing, with 60% of trade being intra-Asian, while deepening ties with Russia, Belt and Road countries, and the Global South. China's massive manufacturing scale advantage in dual-use technologies challenges US extended deterrence and influence in Asia.

Considering the world's dependency on China's manufacturing capacity, an alternative scenario might be that the fallout from tariffs on countries like Canada, Mexico, and the European Union could present an unexpected opportunity for China. As these countries face challenges from the US's disruptive trade policies, they may look to strengthen trade relations with China. This could lead to a closer alignment with China, as the restructuring of global trade may make it more advantageous for these nations to partner with China in certain areas, such as technology, manufacturing, and critical raw materials. In that case, instead of a tri-polar trade system, the new system design would be more or less free trade between countries, except for the US, which would be "protected"

Figure 2

A world of three loosely integrated economic blocks emerging

US, Europe in separate economic blocks? US tariffs seem to target global supply chains.





behind steep tariff walls. The fault lines in this system would be Mexico and Canada, being part of the North American trade area, USMCA. Today, it is difficult to say which side of the fault line these two countries will fall on over the coming years.

NATO sclerosis and military realignments

US NATO scepticism is an existential threat to Europe. Explicit doubts about Article 5 commitments undermine deterrence, and there is a fear of Russia exploiting gaps through hybrid threats in the Baltic. Europe has been jolted into action, fundamentally altering its fiscal policy, defence spending, and economic growth approach. A European Security arrangement will have to be developed.

Europe is now in a wartime economy, which Ursula von der Leyen describes as “a new era of rearmament.” War economies fundamentally reshape national priorities, redirecting resources from civilian consumption to military needs and trashing economic orthodoxy.

War economies typically see an increase in centralised government control over industries and resource distribution to manage resource allocation effectively. This stage has not yet been reached, but governments are calling for consolidation amongst private sector defence contractors, and there have been calls for European capital to be invested in European defence and related businesses at the expense of products for private consumption and exports. One example is the uncompetitive European auto industry, which risks being hard hit by tariffs and competition from China. We are now on the verge of seeing this capacity shift as auto companies contemplate moving available industrial capacity to the European defence sector.⁵

Energy security is central to Europe’s path to independence.

Decarbonisation policies are not working. While \$9 trillion has been spent on energy transition, global emissions reached an all-time high of 54 Gtpa in 2024. Cheap domestic energy is prioritised for security and growth over decarbonisation. Europe is being directly threatened on both sides, with the relationship between Trump and Putin reminding some of 1939’s Molotov-Ribbentrop pact.⁶ Meanwhile, Chinese manufacturing prowess and low energy costs are a fundamental threat to European competitiveness. Europe is now in a fight for survival. Europe must consider why it enters this fight as the only fighter with one hand tied behind its back. Its industrial policies over the past decade have been riddled with contradictions, which somehow get justified via EU double-speak: “We are going to become competitive by decarbonising”, while adding €44 billion in direct

⁵ Volkswagen Willing to Re-Open Military Equipment Production for Germany

⁶ Trump’s secret pact with Putin: A warning from Lithuania

“

When the dust settles after a chaotic and disruptive period, the likely new operating system of the world, replacing Pax Americana, will be a multipolar system, with regional trade and security arrangements.

costs to the domestic industry in 2023 via EU ETS carbon taxes. Either Europe will decarbonise, or it will become more competitive.

Thus, it is probable that Europe will backtrack on its ineffective energy policies. Why pursue expensive⁷ “100% renewable energy”, leading to black-outs due to a lack of spinning baseload capacity, as recently seen in the Iberian Peninsula? Why have a moratorium on new oil & gas licenses in the North Sea when Europe will need more natural gas in the decades to come to back up renewables? Energy policy will have to become more pragmatic. Renewable energy, nuclear power, and electrification will be core to the strategy. However, a new energy policy will also mean accepting that fossil energy sources are central to a secure and reliable energy system for decades.

Conclusion: Fragmented interdependence

When the dust settles after a chaotic and disruptive period, the likely new operating system of the world, replacing Pax Americana, will be a multipolar system, with regional trade and security arrangements. The world is coalescing into three competing blocks, but not hermetically sealed. The emerging order resembles “fragmented interdependence” - less globalised than the 1990s/2000s, but more connected than the Cold War, and with a reduced role for the US dollar.

The dollar will continue to lose share, both as a settlement currency and as a reserve asset. However, there is no single alternative to the dollar, and a multipolar settlement and reserve system will emerge, including gold playing a larger role as a reserve asset.

The corporate platform model will face headwinds. Companies will want to reduce their fragility after bad experiences from disrupted supply chains in recent years, and therefore, at the margin, move towards verticalisation of production to improve resilience. Furthermore, countries will want a larger piece of the value creation through taxes. This will come at the expense of shareholders.

We began this paper quoting Hemingway. The idea that major shifts happen “slowly at first, and then all at once” resonates a lot with the investment philosophy of C Worldwide because of its relationship with the concept of compounding. Hemingway’s insight is a reminder of the power of compound growth and the importance of patience and persistence. The key is to stay attuned to the gradual shifts happening beneath the surface and to take proactive steps to prepare for the changes that will eventually shape the new operating system.

This means cultivating a long-term mindset and a tolerance for delayed gratification. It means building strong foundations and resilient portfolios with companies that can compound earnings through the changes that will be coming. Platform companies will be less favoured, and national champions, like recent additions to our global strategy, Republic Services and Progressive, will have more defensible business models. The importance of international diversification will grow as we transition further and further away from Pax America into a multipolar world, where the growth baton no longer resides in the hands of the US economy. The US will go from being a destination for capital to becoming a source of capital. For investors, now is the time to allocate to international equities.

EU: This is marketing material. This publication is prepared by C WorldWide Asset Management Fondsmæglerelskab A/S. It is provided for information purposes only and does not constitute, and shall not be considered as, an offer, solicitation or invitation to engage in investment operations, as investment advice or as investment research. The publication has thus not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. Opinions expressed are current opinions only as of the date of the publication. The publication has been prepared from sources C WorldWide Asset Management Fondsmæglerelskab A/S believes to be reliable and all reasonable precautions have been taken to ensure the correctness and accuracy of the information. However, the correctness and accuracy is not guaranteed and C WorldWide Asset Management Fondsmæglerelskab A/S accepts no liability for any errors or omissions. The publication may not be reproduced or distributed, in whole or in part, without the prior written consent of C WorldWide Asset Management Fondsmæglerelskab A/S. Past performance does not indicate future performance.

US: This is marketing material. This publication has been prepared by C WorldWide Asset Management Fondsmæglerelskab A/S (CWW AM). CWW AM is a registered Danish investment firm located at Dampfaergevej 26, DK-2100 Copenhagen, Denmark. CWW AM's Danish company registration no is 78420510. CWW AM is registered with the SEC as an investment adviser with CRD no 173234. This publication is provided for information purposes only and does not constitute, and shall not be considered as, an offer, solicitation or invitation to engage in investment operations, as investment advice or as investment research. The publication has thus not been prepared in accordance with legal requirements designed to promote the independence of investment research, and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. Opinions expressed are current opinions only as of the date of the publication. The publication has been prepared from sources CWW AM believes to be reliable and all reasonable precautions have been taken to ensure the correctness and accuracy of the information. However, the correctness and accuracy is not guaranteed and CWW AM accepts no liability for any errors or omissions. The publication may not be reproduced or distributed, in whole or in part, without the prior written consent of CWW AM. All figures are based on past performance. Past performance does not indicate future performance. The return may increase or decrease as a result of currency fluctuations.

UK: This document has been prepared by C WorldWide Asset Management Fondsmæglerelskab A/S(CWW AM). CWW AM is a focused asset manager registered as an investment firm with the Danish FSA. CWW AM is located at Dampfaergevej 26, DK-2100 Copenhagen, Denmark, CVR registration number 7842 0510. This document is directed at persons having professional experience of participating in unregulated schemes (investment professionals) and high net worth companies (as defined under art. 14 and 22 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001). The document and any investment or investment activity to which it relates is available only to such persons and will be engaged in only with such persons. Any other person should not rely or act on the statements made in this document. The content of this presentation is confidential, and redistribution or reproduction is prohibited. The presentation is provided for information purposes only and does not constitute, and shall not be considered as, an offer, solicitation or invitation to engage in investment operations as investment advice or as investment research. CWW AM is not responsible for the suitability of the information in the presentation. Opinions expressed are current opinions only as of the date of the presentation. The presentation has been prepared from resources CWW AM believes to be reliable and all reasonable precautions have been taken to ensure the correctness and accuracy of the information. However, the correctness and accuracy are not guaranteed and CWW AM accepts no liability for any errors or omissions. This presentation contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and CWW AM, and its employees may have dealt in the investments concerned. It is emphasized that past performance is no reliable indicator of future performance and that the return on investments may vary as a result of currency fluctuations.

C WorldWide Asset Management Fondsmæglerelskab A/S

Dampfaergevej 26 | DK-2100 Copenhagen | Tel: +45 35 46 35 00 | VAT 78 42 05 10 | cworldwide.com
info@cworldwide.com | Produced Q2 2025