

Princess Therese of Liechtenstein: Geopolitics in Wealth Management

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Geopolitical developments have a decisive influence on private wealth, both in a positive and negative sense, writes Princess Therese of Liechtenstein exclusively for *finews.ch*.

This article is part of a series entitled «A Future Vision for Wealth Management». The next contribution will appear on February 18.

After what has been an extended phase of peace – at least from a historical perspective – our increasingly polarised world is once again facing a new, complex and potentially dire situation. As a side effect of globalisation, geographically distanced nations are coming closer together from an economic and political perspective.

A conflict smouldering in a given region can easily spread to other global regions due to today's political, economic and social entanglements. But how? To where? And what are the causes and issues that actually lie behind these conflicts? For those who

are entrusted with the protection and management of wealth, having the right answers to such questions is of crucial importance.

Where Geopolitics Comes in

Just like in a crime investigation, the murder per se is a given – of greater interest to the detective is how it happened in the first place. This is where geopolitics comes in. Geopolitics examines the events happening around the world and connects them to economic, political and social issues. Financial aspects and their ramifications are also deeply connected to geopolitical analyses. Thus a keen awareness of geopolitical developments is essential to prudent wealth preservation and management.

A current case under investigation is the collapse in the price of oil. What's behind it? The US has lately become energy self-sufficient, with little need anymore to draw on international oil and gas resources. Consequently, America's strategic alliance with Saudi Arabia is not as important as it once was. Simultaneously, one can observe the US cosyng up to the Islamic Republic of Iran, which – as we all know – is not the best of friends with Saudi Arabia.

Drop in Global Share Price

Thus, Saudi Arabia in turn stopped being considerate towards the US economy. The current price plunge of oil is being tolerated by OPEC (The Organization of Petroleum Exporting Countries) as a way of protecting the member countries' own share of the market and forcing the North American shale- and sand-oil upstarts out of the game.

But this price war has an influence not only on the US and Canadian petroleum industry, but also on the entire world. In addition, despite the rock-bottom price for «black gold», Saudi Arabia still needs to finance its welfare state and has therefore decreed that the sovereign wealth fund sell large amounts of its investments each month. This in turn is contributing to the drop in global share prices and thus losses on the part of private investors and pension funds across the globe.

Decisive Influence on Private Wealth

Another case under investigation: the sanctions that the Western industrialised nations and Russia have reciprocally imposed on each other of late. Sanctions in the form of trade restrictions almost always have a negative effect on the economic growth of the countries involved. The past offers a bevy of examples where sanctions have ultimately led to the decimation of private wealth, thereby intensifying the conflict between the nations involved.

In the end, the citizens are the ones who suffer – take for example the Iranian middle class, which has borne the brunt of sanctions for decades now (and practically no longer exists). Free trade is pivotal for economic and social wellbeing.

Geopolitical developments have a decisive influence on private wealth, both in a positive and negative sense. States are viewed differently through a geopolitically adjusted pair of glasses. What characterises them? Economic risks, overregulation, state expropriation and redistribution of personal property, social unrest, wars? Such nations harbour enormous risks for private wealth.

Toxic Cocktail

Venezuela is presently a prime example of such a perilous country: risks that arose due to leaders who strive for control and exaggerated regulation, advocate the redistribution of wealth and are prone to misgovernment and nepotism. Not to mention the legal uncertainty, political instability and difficulties in international relations that are part and parcel of it all. Such a toxic cocktail destroys the very substance of a nation and drives away the private wealth that is so urgently needed for a socioeconomic turnaround.

In sharp contrast to that, there are countries that offer countless opportunities, political stability and excellent international relationships and networks, as well as legal certainty, a free market economy and unbureaucratic public administration. Liechtenstein and Switzerland are good examples of nations where the respect for private wealth still exists.

Greatest Risks to Private Wealth

France on the other hand is presently taking a path in the opposite direction. The discussion concerning social inequality needs to be juxtaposed against the enormous national debt load France carries. And under the pretext of combatting terrorism, the attempt is being made to phase out the use of cash and intensify controls of the populace and their assets. In our latitudes, welfare policies and populist political movements currently pose the greatest risks to private wealth.

It would be illusory to assume that political instability in the form of (civil) wars, dictatorships, revolutions or terrorism is a problem to be found only in the Middle East, Africa and South America. Such tendencies are also afoot in Europe: the annexation of Crimea and the conflict in Ukraine are just two examples of recent happenings on the Old Continent.

Constantly Changing

The relationship between Russia and the West has become so frosty that it can be compared with the Cold War era. Both NATO and the Russian armed forces are preparing for a possible conflict. Moreover, the world is being progressively split into two camps, with China and Russia on the one side and NATO and its US allies in Asia on the other. A multipolar system offers a certain degree of equilibrium, but a polarisation into two encampments heightens the threat of rapid escalation.

In a world that is constantly changing and becoming relentlessly more interconnected, expertise and professionalism are of greater necessity than ever before. Precisely those individuals who are actively involved in wealth preservation and management should have a vital interest in deciphering and understanding the geopolitical circumstances and events as they unfold and determining the impact those developments could have on the wealth that has been entrusted to their care. Otherwise, how can tangible and intangible assets be safeguarded over the long term and preserved for generations to come?

Princess Therese of Liechtenstein is a Client Relationship Manager at *Industrie- und Finanzkontor Ets.* and occasionally gives talks on political and social issues at events for young professionals. She also publishes commentaries on global happenings on the blog site of *Geopolitical Information Service*.

Industrie- und Finanzkontor Ets., founded in 1948, is an independent, Liechtenstein-based trust company with an international orientation and a staff of roughly 50 people. The company specialises in long-term, generation-transcending wealth preservation particularly for families and entrepreneurs. The roots of *Industrie- und Finanzkontor Ets.* lie in the Princely House of Liechtenstein.

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