The West LOST: China’s AI & Robot Revolution is Already Unstoppable | Arnaud Bertrand

The robot age has long begun. Just not in the West, where there is still not a single company able to produce what China is already selling as a household good. What does that mean for the future of the US empire and the multipolar world? Today, I'm talking again to Arnaud Bertrand on China’s open source AI push, US tech controls, Europe’s growing dependence, drones and humanoid robots, Southeast Asia’s balancing act, new payment rails in Asia, China’s response to US sanctions, and the wider shift in global power around Iran, finance, industry, and the fading force of Western control. Links: Arnaud Bertrand on X: https://x.com/RnaudBertrand Arnaud Bertrand on Substack: https://arnaudbertrand.substack.com/ Neutrality Studies substack: https://pascallottaz.substack.com (Opt in for Academic Section from your profile settings: https://pascallottaz.substack.com/s/academic) Merch: https://neutralitystudies-shop.fourthwall.com Donation: https://neutralitystudies.com/donate Timestamps: 00:00:00 Introduction and China’s AI model 00:07:32 US control strategy and open source 00:15:51 Friendshoring Europe and the AI race 00:27:01 On-device AI and humanoid robots 00:32:17 Southeast Asia between two systems 00:35:56 Asian payments and SWIFT 00:42:40 China challenges US sanctions 00:52:24 Iran war and Europe’s decline

#Pascal

Welcome back, everybody, to Neutrality Studies. This is Pascal, and today I'm joined again by the wonderful Arnaud Bertrand. Arnaud, welcome.

#Arnaud Bertrand

Hi Pascal, thank you for inviting me again.

#Pascal

It's good seeing you again. You haven't been on the show for quite a couple of months, which is not because I don't want you. I actually adore all of your writing and analysis that I read almost daily on Twitter, and I don't know how you do it. So congratulations on everything you put out.

#Arnaud Bertrand

Thank you. That means a lot coming from you.

#Pascal

All right. It's quite fantastic. You're one of the most prolific analysts out there, actually, on Twitter and Substack. And you recently have been working on AI, and I thought maybe we can start with that one. It kind of flew a little bit under my radar. I only read that China came out with a new DeepSeek model, or, well, the company behind it. It's not China itself anymore, but the Chinese AI approach. In what sense is it different from the Western approach, and why to you does that matter?

#Arnaud Bertrand

Yeah, I mean, it's really a topic that fascinates me also because in my main job, which is actually not writing on Twitter or Substack, I'm a developer. I mean, I'm an entrepreneur and I code every day for my company. So I use a lot of AI, and I get to test the different models, both the U.S. models and the Chinese models. And it's fascinating to see the contrast in both approaches. I think the Chinese approach, the more things advance, the more it actually shows a very smart strategy. So the other day, you had Jensen Huang, who is the NVIDIA CEO, go on a podcast that made a lot of noise, and he described AI as, in his words, a five-layer cake. So you have five layers to AI, starting with the lowest layer, energy. And then, you know, you have chips, the infrastructure, and so on. The last two layers, as he described it, were the models, so the AI models.

So, you know, on the American side, you have ChatGPT, Claude, and so on. On the Chinese side, you have, you know, DeepSeek, Kimi, and so on. And then the last layer was the application layer — so what you actually do with the AI. And his point is that AI is a general-purpose technology, much like electricity or the internet or, you know, the phone. So we've had a few of those in the past. With those general-purpose technologies, it's always the application layer that creates the value. So if you think back about electricity, for instance, did it matter much who made the actual energy infrastructure, who owned the electrical power lines, and so on? Not that much. What mattered is who made the fridge, who made light bulbs, and so on and so forth. What created the value was the application layer for that.

Same thing for the internet. The companies that became insanely big with the internet weren't the telecom companies that provided the infrastructure. It was the Googles, the Alibabas, the Amazons, and so on and so forth, who actually used the internet, made the applications. There is no reason to think that AI is going to be any different. I think we're going to look 10, 20 years from now and be like, this whole AI race around the lower layers, positioning as whoever wins the infrastructure is going to win the AI race, is going to sound extremely stupid. Because what really matters is, at the end of the day, how you use AI. Whoever wins, to the extent that there is a race, is whoever can use AI in their society in order to gain more efficiency, productivity, and so on and so forth.

And that's why the American approach is a bit strange, because if you think about it, what that means is that what matters is diffusion in order to create the most value. So you want everyone out there to have this general-purpose technology, because then the application layer can reach the

most people, right? So it's like, if you think back to electricity, it would have made no sense to say, okay, we're going to win the electricity race by forbidding anyone else to have the light bulb, to have electricity. So we are the only ones who can, you know, have lights, basically, because then all those big companies that did create value on electricity, like GE and so on, would have a much smaller market if only the Americans could have electricity.

They made money by making sure that everyone had access to this infrastructure, and then they could sell the application layer to everyone. But that's the approach that the Americans are taking for AI, saying our models are really what matters, and so we don't want the Chinese to have them. We don't want any, you know, non-aligned nations to have them. So it's a bit of a strange take. Whereas the Chinese approach is, on the contrary, to offer the models free and open source to everyone, to ensure maximum diffusion, because they're taking much more of the general-purpose technology approach by saying, OK, it's a general-purpose technology, diffusion is what matters. Here are the models, everyone, you can have it for free. Let's focus on the application layer.

#Pascal

Hey, very brief intermission because I was recently banned from YouTube. And although I'm back, this can happen anytime again. So please consider subscribing not only here, but to my mailing list on Substack. That's pascallottaz.substack.com. The link's going to be in the description below. And now back to the video. I mean, the United States' strategy in a lot of areas has always been to gain complete market control, right? Because that then—global market control—that then gives you a huge lever. And we've seen the United States using this lever over and over and over again in the past 10, 15 years with sanctions and sanctions.

You know, trying to then, you know, the whole SWIFT system just kicked countries off, with the expectation that their economies would crash. We've seen how they tried to do that, or how they actually did that to Iran in January—tried to just destroy the Iranian economy overnight by market manipulations, centrally done from coordinated forces from Washington. And this is, of course, only possible if you are in firm control over certain market segments and also technologies. And they seem to try to replicate that here, but then the Chinese approach now is a completely different one, apparently. So, also not trying to control everything, but just let it go, including open-sourcing stuff, huh.

#Arnaud Bertrand

Yeah, exactly. I mean, if the Americans' goal is to control everything, then it's failing dramatically. Because, you know, Jensen Huang just gave an interview in a magazine and, by his own words, NVIDIA, which is the biggest American chip company, is down to 0% market share in China. He said that. It has 0% market share. And this is directly linked to their approach, which is, of course, you know, you Chinese can't have our chips, you can't have our models. So if from China you try to access anthropic.com, which is the place where you get to use cloud AI, or if you try to go on

ChatGPT and so on, you can't access those models. It's not China banning those models, it's the Americans banning those models in China.

#Pascal

I didn't know that. I thought it was the Chinese Great Firewall, because I actually was just in Shanghai for a couple of days and I couldn't. I had to route my traffic through my Hong Kong eSIM in order to use Anthropic. Ah, it's the Americans who block it.

#Arnaud Bertrand

Yeah, absolutely. It is the American side who blocks those models in China, and they do the same for the chips and so on. So, you know, by definition, that gives you zero control because you're saying the largest market in the world when it comes to semiconductors—which is a fact, China actually buys more semiconductors than any other country in the world, including the U.S. We voluntarily... well, voluntarily is the American government. Actually, the NVIDIA CEO is extremely pissed off about that. But they're saying we voluntarily don't sell chips to them, at least the most advanced chips. And so what they're forcing China to do, which China actually did, is to build... and so by that action, they're helping, they're very much encouraging China to become a mighty competitor, which they are in models.

So you consistently see the Chinese models competing, you know, keeping track with the American models. So, including if you look at the latest DeepSeek V4, if you look at most of the benchmarks, it's on par with the American models and increasingly on chips. So, the DeepSeek V4, for instance, can run on the latest Huawei chips, Ascend chips, and it can run very well. So right now you have the Chinese in control of their full stack, of their five-layer cake, which we were speaking about earlier, and what they will do and what they're increasingly doing as well is going to other countries with an incredibly strong value proposition, which is we have the whole stack, the same as the Americans, so the five-layer cake.

But ours is open source, so you guys are in full control. You can even modify the model and so on. We don't care. And it's 30 times cheaper, by the way. So that is their value proposition, which is insanely strong. It's literally, at this stage, you are a complete idiot if you have a company like iView and you're paying for cloud or OpenAI services. API, you're a complete idiot because you're paying 30 times more for the same thing and you give all your data to OpenAI or Anthropic. Whereas if you have a Chinese open source model on your own server, they're not communicating with China at all. You're in full control of your customers' data.

#Pascal

So China is by now providing the planet with a public good. Isn't that quite fascinating? I mean, it used to be the United States that had this kind of approach, at least some of the companies, to do

things open source and provide. But now the US government is stepping in and making that kind of model completely impossible, thereby actually increasing China's digital sovereignty and the abilities they have. I mean, isn't that just increasing the gap between, well, the attractiveness of actually the two development models?

#Arnaud Bertrand

Yeah, it's very much increasing the value proposition that the Chinese are providing, that's for sure, by contrast with them. I mean, it's not the first time in history that this happens. We saw the same thing between the UK and the US, actually. I think it was... I can't remember the technology exactly. I think it might have been clothing, you know, making garments industrially. The British at the time, the British Empire, were the leaders. The Americans, as the sort of up-and-coming power, wanted to acquire this technology, but the British were protecting it and so on and so forth. And ultimately, the Americans gained the knowledge, and because the British were so closed, they actually set themselves at a competitive disadvantage versus the Americans. So it's quite a common sort of dynamic. But most of the time, it's shooting yourself in the foot to do that. I mean, it's protectionism. At the end of the day, it's protectionism.

#Pascal

It is. It is protectionism. It's actually something classic that happens once the leader starts fearing to fall behind, that they go like, instead of "let's be innovative," let's just close everything down. But what this does to international relations is that it leads to ideas started a couple of years ago, but even now it's kind of happening in the background — the idea of friend-shoring, right? That the U.S. wants to produce everything, not only within the U.S., but within its group of friends, of allies, when it comes to AI and especially chips.

The two most important friends the United States has are Japan and the Netherlands, which make the lithography machines that can produce these chips. And actually, the Japanese and the Dutch coordinate on that level diplomatically because they don't want to be left behind or played against each other. What are your observations on where this kind of friend-shoring stuff is going and how China is reacting to this — that actually the US is trying to take Japan and the Europeans kind of off the market for the Chinese?

#Arnaud Bertrand

Yeah, I mean, it's definitely what they're trying to do, at least what they were trying to do under the previous administration, which was very much about that. You could argue that the Trump administration is changing this dynamic quite a bit because, well, it's not very friendly.

#Pascal

They harass everybody.

#Arnaud Bertrand

Yeah, exactly, exactly. So if you listen to much of the rhetoric on AI from the Trump administration and companies that are very much aligned with them, like Palantir, they're very openly saying that AI is a tool of domination for the U.S. with regards to the entire world, allies included. So, well, allies, you know, in quotation marks. And this is, you know, as a European, this is very worrying rhetoric. So, you know, I look, you know, as a Frenchman, for instance, I know that my own intelligence services, the DGSI, use Palantir on American AI, for instance, at the core of their system. So it is Palantir telling the French intelligence services who is considered a threat to France as a country.

#Arnaud Bertrand

And when Palantir then says, and the Americans are saying that, you know, we use AI as a tool of domination, you can very much, you know, tell yourself that then Palantir is incredibly biased in favor of American interests. So it's not going to, yeah, obviously, it's not going to surface automatically threats that are objectively threats to French interests, but that American interests say shouldn't be surfaced as threats. So just a recent example, for instance, one of the biggest intelligence failures in France was the whole story around AUKUS. So we had this deal with the Australians to build them a submarine, which would have, I can't remember the exact amount, but it was tens of billions of dollars to France, which the Australians would have paid for us to build them submarines.

And then the contract was stolen by the Americans and the Brits, which is obviously bad for French interests. But you can bet that Palantir would not have surfaced those conversations that the British and the Americans were having with the Australians because, you know, obviously that's good for American interests. So you can imagine plenty of threats to French interests that, you know, American AI is structurally set up to not surface. On the converse, there are some threats which are not necessarily threats to French interests, like China, in general, is much less a threat to European interests than to the U.S. Because, I mean, the U.S. is number one. They want to stay number one. China is number two. They might be number one.

So you can understand how the Americans want to prevent the Chinese from becoming number one. To the Europeans, it's actually a good thing if the world is more balanced between the U.S. and the Chinese, because then you can play one against the other. So you don't necessarily want to prevent China so much from, you know, being a counterweight to the U.S. But of course, you're going to see Palantir very much surfacing the Chinese threats to the Europeans when, you know, objectively it's less of a threat to European interests. So, you know, if on top of that, American officials, American companies say, yeah, that's exactly what we are going to use AI for, then, you know, it's again kind of shooting yourself in the foot.

#Pascal

Yeah, but the Europeans are really, really good at that. It's interesting. I just had a talk with Larry C. Johnson where we came to the conclusion that the United States is shooting itself in both feet right now when it comes to what they are doing or trying to do with Iran, how they are approaching the entire Ukraine war. But the Europeans are kind of on a different level there, aren't they? Because downstream from whatever the United States does, Europe at the moment is just integrated in that. And this now includes, of course, the entire AI race. And maybe you can speak to that. And then a second question.

Why do you think it is that the United States and Europe still frame it as an AI race, when instead, you know, China, to me, especially when it comes to something that is very battlefield applicable, has been trying to play the drone race, but the United States never picked it up? I mean, the United States never went to these beautiful big drone shows the way that China did in order to show what they can do in terms of coordination and so on. And that is a technology which has this obvious battlefield application, which we now know. But the US and Europe, they never went there. Drones are in the media about how they're being used in Russia and Ukraine, but they're not on the radar of who produces what and so on. There's no drone race in the media. There's only the AI race.

#Arnaud Bertrand

Yeah, I mean, to be fair, on the American side, you have quite a few drone companies. A famous one is Anduril, for instance, the one that was started by Palmer Luckey, who is the entrepreneur who created the VR headset that was bought by Meta. And in fact, Meta renamed itself Meta because they bought that company, and it was kind of a huge failure. But that's on the side. So you have some drone companies on the U.S. side, but compared to China, they are very, very far behind. They're trying to compete on the military drone side of things, but not so much on the commercial drone side of things. So, you know, China has DJI drones, which is by far the leader. And at this stage, they are so advanced, so good technologically, so big, that it's just impossible. The race, to the extent there was one, is won.

It's kind of over, I think. So I think that's... that's the status. I think they're overplaying the AI race because it's one of the only things, if you look, where the Americans are still somewhat competitive with the Chinese. There are so many industries right now, especially when it comes to actually making stuff — so not software, but actual hardware that requires high-end industry at scale — where they just can't compete at all. So obviously they're not going to overplay that in the media because it's not a very good look for them. So if you look at AI, for instance, AI growth is 50% of American GDP right now. So it's kind of, yeah, it's 50 — sorry, 50% of American GDP growth. GDP growth. So you can search, it's actually a number that everyone is quoting. I think it's correct.

#Pascal

No, of growth, I can believe that. Not of total GDP, but of growth. Yes, yes.

#Arnaud Bertrand

Yeah, yeah, yeah. So when it comes to economic growth, the US is kind of a one-trick pony right now. It's AI. They very much rely on that. They don't have much else, if you look. So even when it comes to the FANG, for instance, China is very much competing against all of them. So TikTok is a better social network than most American ones. If you take most industries, China is extremely competitive. So they are trying to save AI, which is kind of one of the only ones where they might have... But my argument is that the approach that they're taking won't work in the medium to long run because they're focusing way too much on the model, which is not what's going to create value in the end. It's the application layer that matters.

#Pascal

This brings us to an interesting point, which is that, you know, recently the Apple CEO—it was announced that there's a change at the very top. And there was quite a bit of chatter about this one and where Apple is going. And the best analysis I've seen is that Apple is actually putting its bet on on-device AI, and that they're running with that one, saying that that's where the future is going to be. And at the same time, we are now seeing in China the development of very, very capable machinery, also by Huawei, and very capable models that can run on that machinery.

And what I've seen in Shanghai, actually, which really fascinated me—the robots. China now has commercially available robots that you can play with, humanoid robots that you can control with a controller. And the thing walks and runs and shakes its hand and so on. It's quite insane. If you combine these things, I mean, we would have the kind of iRobot future that Asimov and so on was talking about. What are the developments in robotics and AI that you see happening, and the trend?

#Arnaud Bertrand

Yeah, so I think I wrote two years ago that humanoid robots are going to be the consumer product that will seal China's leadership as the top player when it comes to technology. It will be even a bigger change, I think, than the release of the iPhone by Steve Jobs, where everyone was like, wow, that changes everything. The US is very much at the top of technological leadership and so on. I think that's going to happen with humanoid robots in China. China is at least two to three years ahead of the U.S. when it comes to humanoid robots. So I had a look. It's quite funny—if you take the single city of Shenzhen, it has more humanoid robot companies competing with each other than the entire United States. Or, as a matter of fact, than the entire West. Because if you combine with Europe—Europe, I think, unless I missed any, has zero humanoid robot companies.

So, you know, the U.S. has a couple. I think the most advanced one is the one from Elon Musk, but it's not even released yet. So you can't buy it—I forgot the name, I have it on the tip of my tongue.

Anyway, you can't buy Elon Musk's humanoid robot. I think he said that it might be commercially available next year. Whereas if you look at the Unitree robot, a humanoid robot, it's been commercially available for, I think, two years already. And you can buy it today on Amazon. I think the price is $13,000. So, you know, just by that very fact, it's years ahead of the Americans. And you have dozens of humanoid robot companies in China. They're, you know, organizing so many events. Like there was the Beijing Marathon, I think, two weeks ago. Well, you had humanoid robots doing—it was a half marathon against each other.

For the first time ever, you had humanoid robots running a semi-marathon faster than humans, which is quite an impressive achievement technologically. So yeah, they're very much advanced. I mean, they're not yet at the stage where you can speak with them like you speak with a human being. They can't do most tasks, so they can't make beds or cook or whatever. But that is directionally where we're going. You know, when I'm saying that humanoid robots won the semi-marathon this year, last year they were twice as slow. So that is the pace at which they're improving. Last year, I think they took—I can't remember the timing—but they were way slower than humans. So they're improving very fast. And I think, you know, we're looking within less than a decade, we might be somewhere like that.

#Pascal

Where do you think that puts everybody else? Let's say, I mean, especially Southeast Asia—and you are in Southeast Asia—is in this very interesting spot where they can basically access both markets. They can play with both sides. Malaysia is now rising as a hub where things are being made and that companies pivot to. What do you think that does to the in-between places?

#Arnaud Bertrand

I mean, I think those in-between places still don't want to have to choose. At least that's the case for Malaysia. They want to remain in-between. That's the point. So, you know, Malaysia, for instance, is doing very well these days by building data centers in Penang, in the south of Malaysia, in Johor, at the border with Singapore. I know quite a few people working in that industry. And, you know, they're agnostic when it comes to whose chips are in those data centers. And so that is in their interest.

If everyone on both sides, the Chinese and the American side, is coming and investing in chips in Malaysia to build those data centers with their chips and so on, the more the better. So that is their interest. The issue is that the American side is pushing very much for exclusivity. So last year you had Trump visiting Malaysia. They made the Malaysian side sign a deal where they were trying to extract some sort of exclusivity, which the Malaysians signed. But since then, the deal is kind of off the table because there was something related to tariffs, I think. And the U.S. Supreme Court had this ruling on tariffs, which means it violated the deal.

So you're seeing many attempts by the Americans to contractually ensure that it locks countries like Malaysia or others in Southeast Asia away from the Chinese markets, well, away from partnerships with China. But quite systematically, you see it fail. And being based in Malaysia, I'm seeing more and more development of Chinese companies here. So, for instance, more and more of my shopping and Malaysian shopping is directly on Chinese e-commerce sites, for instance, because there is this new deal where you can buy directly online. And Taobao and so on, it's delivered directly to Malaysia with improved infrastructure. And so, you know, that's an amazing deal.

#Pascal

So, yeah. Yeah, it is. And, you know, on the one hand, we've now got this pressure, especially from the United States, to do friend-shoring and lock everybody else out, right? And put pressure on the allies to do so. On the other hand, we have this natural urge of these third parties to not do so and play with everyone. Also, when it comes to the payment infrastructure, one of the things going to China that surprised me is that at the moment, these payment infrastructures are quite linked. I'm able to use my Japanese-issued Visa credit card with Alibaba, Alipay.

And that worked like a charm. And on the other hand, in Japan, you can use Alipay because it's now integrated into most systems. I mean, most places, including taxis and so on, accept that. So we do have kind of a linking of payment methods, payment systems. And where do you see that one developing? Because the prediction for a long time was that this one would be completely decoupled, especially because of what the United States did with the Russia sanctions and Iran sanctions and so on. But it seems that Asia develops a little bit differently, doesn't it?

#Arnaud Bertrand

Absolutely. In fact, I posted about that quite recently because I traveled to both Thailand and Cambodia. And what I found interesting is that everywhere in Malaysia also, of course, everywhere you can scan a QR code. So this is something you don't see much in Europe or the US, but everywhere in Asia, little shops have a QR code, which is normally local — so national. Every country has their national QR code, which you can scan and you pay that way. But interestingly, in both Cambodia and Thailand, oftentimes those QR codes were working if I scanned them with ID Pay or the Malaysian app, which is called Touch and Go, which is part of the Alipay Plus network.

So you're saying, if I was Chinese, for instance, traveling in Cambodia and Thailand, I could pay everywhere with my Chinese Alipay. And by the way, it's free, so there’s no charge. It's like, how do you call that? It's a ledger, meaning it's not like you have a MasterCard or Visa taking a cut in the middle. It's a blockchain — that's the word I was looking for. So it's more beneficial to everyone, basically.

#Pascal

It's very interesting that we are seeing that at the moment. Basically, meta-banking companies that try to sit on top of lower-level banking infrastructure. We have one in the West called Wise that is doing a good job of this kind of linking and then doing money clearance, basically. But we see even more of that in Asia, don't we? And a lot of it actually coming out of China.

#Arnaud Bertrand

Yeah, absolutely. I mean, Wise is tiny compared to... You don't see Wise QR codes everywhere. Like Alipay or WeChat in China, every single shop or person in the whole of China is connected with a QR code. It is the de facto payment system in the whole of China and increasingly linked to local payment systems in the rest of Asia. Whereas Wise, you know, I mean, it's a great company. I use Wise, but it's nowhere near that sort of scale.

#Pascal

No, no, it's also that they do it a little bit differently, not exactly the same thing. It's more interesting that you have at the moment the rise of a lot of companies that try to sit on top of the banking infrastructure. And I wonder if that can continue and if that's actually something that we might see. You know, if that will solve the problem of how to access Russia, for instance, right? If Russia would be integrating that and Alipay would work in Russia so that, you know, the stupid Swift decoupling would lose its power and that people like you and I can simply travel again everywhere and have access to methods.

#Arnaud Bertrand

Yeah, I mean, that's a fascinating observation because those things—I'm not a specialist in banking infrastructure—but what I gather is that those things are blockchain, often private blockchains. So in the case of Alipay or WeChat, it is absolutely a private blockchain that gets linked with, it depends on the countries, either government blockchains or other private blockchains, which means those are standards that are completely out of the typical banking infrastructure. So I would guess that when I'm a Chinese person who pays through Alipay, after scanning the Cambodian QR code or Thai QR code, that transaction never transits through SWIFT, for instance.

And so through consumer adoption, you're right that we might set up a system where SWIFT and the whole legacy banking infrastructure become exactly that—legacy—because it's been rendered useless. It is useful because it's what payments relied on. But if payments, through consumer adoption, are just done through those blockchains and so on, then we don't need it anymore. And all those sanctions based on it by the U.S. also become completely ineffective because people just don't use it anymore.

#Pascal

Yeah, this brings me to the next point, because we've seen this very interesting move just two or three days ago of China, for the first time, activating a 2021 law that prohibits its companies from following U.S. sanctions when it comes to Iran. So China is saying, like, dear Chinese companies, if you go ahead and actually, you know, adhere to U.S. sanctions, then, well, you have a problem with us here at home. How did you interpret that one?

#Arnaud Bertrand

So, just to be clear, it's not China forbidding all its companies to adhere to U.S. sanctions. It's very specifically for a bunch of oil refineries because recently, as part of a—I forgot how they named the operation—Operation Freedom, you know, something. The Americans sort of ramped up the application of their Iran sanctions specifically for some Chinese companies, oil refineries that were allegedly, according to the Americans, processing Iranian oil. Specifically, they went after a very big Chinese company, which is a Fortune 500 company.

Basically, they said, if their company continues to process Iranian oil, we're going to apply the full strength of U.S. sanctions on them, which means they can't use the dollar and so on, which is a massive move for such a large company. And it's also saying that any banks that do business—Chinese banks that do business—with that massive Chinese Fortune 500 company, if they continue to do business with it, they will be cut from the dollar. So it's a huge sanction. Yeah. Yeah, exactly. So it's a huge move. Actually, China, what most people don't know is that they've been a very good actor when it comes to, strangely, when it comes to applying U.S. sanctions.

So, you know, just an anecdote, for instance. I know a very, very famous person who's globally famous. I won't say his name publicly, but two, three weeks ago, he went to China. He's sanctioned by the U.S. He went to China, he just went to the counter of a local bank—I don't know, Agricultural Bank or something like that. He just wanted to change money. He had dollars, he wanted to get Chinese yuan. China has absolutely no issue with that guy. In fact, I think he's seen quite positively by the Chinese. But still, that local Agricultural Bank in China told him, no, you can't change here because you're sanctioned by the U.S. So, you know, they're showing a lot of goodwill, actually, for U.S. sanctions.

So it is quite, and it is the first time that China is applying that 2021 law, because it's kind of the straw that broke the camel's back. It's a huge escalation by the U.S., saying that they will go after that one company and all the banks that do business with it, which is probably all the banks in China. That's a crazy move. And that's why China is like, okay, that's enough. We're not doing this anymore. We're not applying your sanctions. My point was, you know, it's actually a much bigger deal, much more detrimental to U.S. interests to have China lose their goodwill when it comes to applying U.S. sanctions than whatever small amount of Iranian oil those companies might have processed.

#Pascal

Yeah, I mean, we are back at the shooting yourself in the foot because the, I mean, the "goodwill" in air quotes, because of course what it is, is overcompliance by Chinese private institutions, banks, and so on. You know, they all have these legal departments, and the lawyers in these legal departments, they do the due diligence and they're overly careful. These lawyers are so careful because the last thing they want is to forget about something and then get fired because of that. So they're always overcareful. And then they study the U.S. sanctions and sanctions law and say, no, no, no, we need to apply this because we don't want to get cut off or whatnot. And that's how it works. And this is the first time that China as a state, right, stepped in and said, guys, by the way, we're not doing that anymore. A, I forbid you from doing it. B, if something happens to you, I'm going to help. So actually, this is now going to reduce the overcompliance issue within China.

#Arnaud Bertrand

Yeah, exactly, exactly. At least specifically for this case. So anyone that does business with those companies or refineries, it's the interesting thing to watch. Actually, what would be fascinating to watch is what the U.S. does now. Because if they apply, right? So, because if they apply their sanctions, which say, OK, if as a banking institution you keep doing business with a company that we said is on our list, then you as a banking institution can't use the dollar anymore. So, we're speaking in this specific case, probably most large banks in China. So if they apply their sanctions, it would mean right now cutting most large banks in China from the dollar system, which would be a huge move, which I guess the Americans won't do.

Which means that effectively the Chinese would have shown, okay, your sanctions are a lot of bark but not a lot of bite. Like you're a paper tiger, basically. You said you were going to do that. We said, no, you won't. We're calling your bluff, basically. And they won't, I think, because especially right before Trump's visit, that would be the most hostile. It would be like basically saying, OK, we're cutting off almost all links between the U.S. financial system and the Chinese financial system. Like it would cause a global economic crisis, a major one. So, yeah, I think that's what's going to happen. And it's very interesting.

#Pascal

Fascinating, because you know, this is actually that threat of cutting off the banks from the U.S. dollar system that broke, in 2009, the Swiss Bank Secrecy Act. We had an act on our books that actually protected each and everyone who had a Swiss bank account, not only from the Swiss government but from every government in the world. And it was the United States that said, either you give us all of the information of all the U.S. citizens that you have right now, or that's what's going to happen. And the Swiss enacted emergency law to comply. And that was the end of it. So here, sanctions really matter, don't they?

#Arnaud Bertrand

I mean, it is quite sad for Switzerland. I was living in Switzerland at the time, so I remember. And I think Switzerland actually has a lot of leverage, right? Because it's small as a country, obviously, but financially, it's huge. So in Basel, you have the bank of banks.

#Pascal

Bank for International Settlements.

#Arnaud Bertrand

Exactly. You have the Bank for International Settlements, which is like the central bank of central banks.

#Pascal

Yeah, but that one doesn't belong to Switzerland. That one is its own little country, actually, because it's extraterritorial. It belongs to the central banks. So Switzerland had no leverage over it.

#Arnaud Bertrand

Yeah, I know. Actually, my roommate in university, his dad was the head lawyer of the Bank for International Settlements. But still, it's physically located in Switzerland. Switzerland has quite a lot of leverage on it. So they have quite a few cards to play. And I think that on that particular one, they could also have, you know, caught the U.S. breath. But anyway, what's done is done.

#Pascal

Yeah, no, it's also the difference that there were two — UBS and Credit Suisse at the time. By now, Credit Suisse was folded into UBS, so there's only one. But it's this too-big-to-fail kind of issue. If that bank is attacked and it goes down, it drags with it basically the entire Swiss economy, everything. It's like everything gone, up in fire and flames. There's too large a risk. Whereas China actually can say, like, look, we're sufficiently large to try to take it, right?

#Arnaud Bertrand

Yeah, yeah, yeah.

#Pascal

And they do. We started this conversation with AI. What else are you looking at at the moment that fascinates you the most, just to round up the conversation when it comes to technological development but also geopolitics?

#Arnaud Bertrand

I mean, the Iran war continues to be a very interesting case to watch because it's another great revealer of... Many people say those types of things accelerate multipolarity. I don't like the term "accelerate." It's more that you have events that temporarily open the curtain and reveal what is the current state of play. What we are actually seeing with Iran is that they're much more powerful than we thought, than anyone assumed, and the U.S. much, much weaker. Because, you know, yesterday you had, or the day before, you had Rubio saying that right now the objective of the war is to go back to the way things were — so go back to the status quo ante. He officially said that on stage, which is 100% an admission of strategic failure. When you're saying the war I started, now its objective is to unfuck what we've done.

#Pascal

Isn't it the same presentation where he actually asked the United Nations, can you please help to talk to the Iranians to open this trade again? Because this is not fair. And he didn't say it in the sense of, you must do this, we demand. It's more like, could you please help? It's kind of a change in tone, isn't it?

#Arnaud Bertrand

Yeah, not only the UN, but another funny thing is he asked China, because the Iranian foreign minister is in China, or was in China at least yesterday. He asked China, please tell the Iranians that they're globally isolated. We hear about that. Yeah, that was really hilarious when the Iranian foreign minister was in China, which, you know, by definition shows he's not globally isolated and, you know, welcomed very warmly by the Chinese and so on.

#Pascal

It shows that the United States still thinks of itself, plus Europe and Japan, as the world.

#Arnaud Bertrand

Yeah, yeah, yeah. So, yeah, they're pretty deluded. So this is something quite interesting to watch. Europe, I watch a lot as well, as a European. "Interesting" is not the right adjective. It's very depressing to watch, unfortunately. I mean, you're European as well, so... it's very sad. Yeah, I think we completely agree on that one. I mean, it's like everything they do is just stupid. Like they just, for instance, put further sanctions or rather roadblocks on Chinese green energy, for instance, which will make European energy even more expensive when it's already three times the cost of the U.S. or the rest of the world, which will further make European industry uncompetitive. I mean, it just makes no sense.

#Pascal

You know, at some point, the Europeans are just going to be all dressed and covered up in shaggy old blankets. And that's the moment when they will put an import ban and sanctions on blankets from China and Russia to show them who's ruling the world. It's, yeah, it's a very sad spectacle. But Arnaud, people who want to follow you, they should first and foremost go, I think, to your Twitter and your Substack.

#Arnaud Bertrand

No, that's not it, actually.

#Pascal

Those two.

#Arnaud Bertrand

No, that's it. That's it. Under my own name. It's all under my name, Arnaud Bertrand, Substack and Twitter. So it's easy.

#Pascal

Okay. I will also put links in the description box below, and then we will talk again in the next couple of months for sure. Thank you very much for your time today, Arnaud.

#Arnaud Bertrand

Thank you, Pascal.