

Opinion Geopolitics**How to de-risk from America**

There is no precedent of a dominant power abandoning its primacy, as Trump is doing

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Donald Trump is joined by Sir Keir Starmer, Emmanuel Macron, Mark Rutte and Friedrich Merz at the White House in August last year. America's allies are now at a hinge point between the past and the future © Ukrainian Presidential Press Service/Reuters

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The world until recently believed that US-China decoupling was on the way. It turns out that most countries are now scrambling to de-risk from America. As Jay Powell, Federal Reserve chair, or Denmark, one of America's most loyal allies, can attest, pacifying Donald Trump only gets you so far. It buys time but is no substitute for having protection against a rogue superpower. We are thus in the early stages of an accelerating process of US de-risking.

Social distancing from the world's hegemon is a painful business, especially if you are an ally. Yet America's friends are those most urgently in need of it. Their place in the sun rested on the world America made. The jolt to European and Asian allies is thus correspondingly greater. But America's repudiation of the "liberal international order" is also a shock — although in many ways a pleasant one — to China, its chief adversary. China is now auditioning to be the main provider of global public goods, including stability.

As world leaders converge on Davos, most of the chatter is about coping with Trump, who is bringing half his cabinet. A quieter China will be there to pick up the pieces. In that respect, today is zero sum. A loss to America is a gain for China. Countries in America's hemisphere, including Canada, are moving closer to Beijing. Mark Carney, Canada's prime minister, is stopping in China before heading to Davos. As goes Carney's itinerary, so goes global diplomacy.

Countries are de-risking in two main areas. The first is economic. Carney is again out front. Almost three-quarters of Canada's exports go to the US, a number they aim to reduce to below 50 per cent. A lot will divert to China and India. Europe's conclusion last week of a free trade deal with Mercosur (Argentina, Brazil, Uruguay and Paraguay), and the UK's deal last year with India are Trump's co-creations. Britain's debate about putting Brexit behind it and moving closer to the EU also comes partly courtesy of Trump. He is spurring all kinds of third-party conversations that were not happening a year ago. Europe wants partnership with the Trans-Pacific group. That China is not a member, but wants to join, while the US pulled out in Trump's first term, says it all.

It is far harder to diversify from the US dollar. But Trump's now open assault on Fed independence — including launching a criminal probe into its chair — is pushing that case too. Regardless of whether Powell stands trial (and, less likely still, is convicted), investors can expect an era of rising US inflation and a falling dollar. Whichever "Kevin" replaces Powell will be Trump's patsy. America's era of easy money will probably outlive the AI boom.

The price of gold — history's best hedge against war and pestilence — has risen by over 70 per cent since Trump took office last year. Gold is also taking up a growing share of global central bank reserves at the expense of the dollar. So far none of America's investors have threatened a buying strike on US Treasury bonds. Trump appears to overlook that the markets are at least as important as the Fed in setting borrowing costs. Big foreign withdrawals could quickly wipe out the easy money gains of short-term interest rate cuts.

Dumping Treasuries is the financial version of the nuclear option. The actual nuclear option also looms in geostrategic hedging. It has not escaped the notice of America's adversaries that Trump speaks nicely about nuclear North Korea. Were Venezuela a nuclear state, Nicolás Maduro would not now be sitting in a Brooklyn jail.

South Korea, Germany, Australia, Poland and even Canada are all debating to one degree or another whether to go nuclear. Were Trump to annex Greenland, Canada would weigh it seriously. The disabling of Nato would trigger a broader rest-of-the-west hunt for new security. Denmark now sees the upside of some kind of European nuclear umbrella.

There is no historic precedent of a dominant power voluntarily abandoning its leadership, as opposed to being defeated in war or by natural decline. Complying with a revisionist titan's increasingly random demands imposes an opportunity cost on building alternative systems. America's allies are now at that hinge point between the past and the future. Trump is making their choice easier.

Raising the price of US protection is one thing — and a reasonable one. But no sane customer would pay more for a product they are not sure will be delivered. Contrary to the mafia analogies, Trump is offering America's partners a deal they cannot accept.

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