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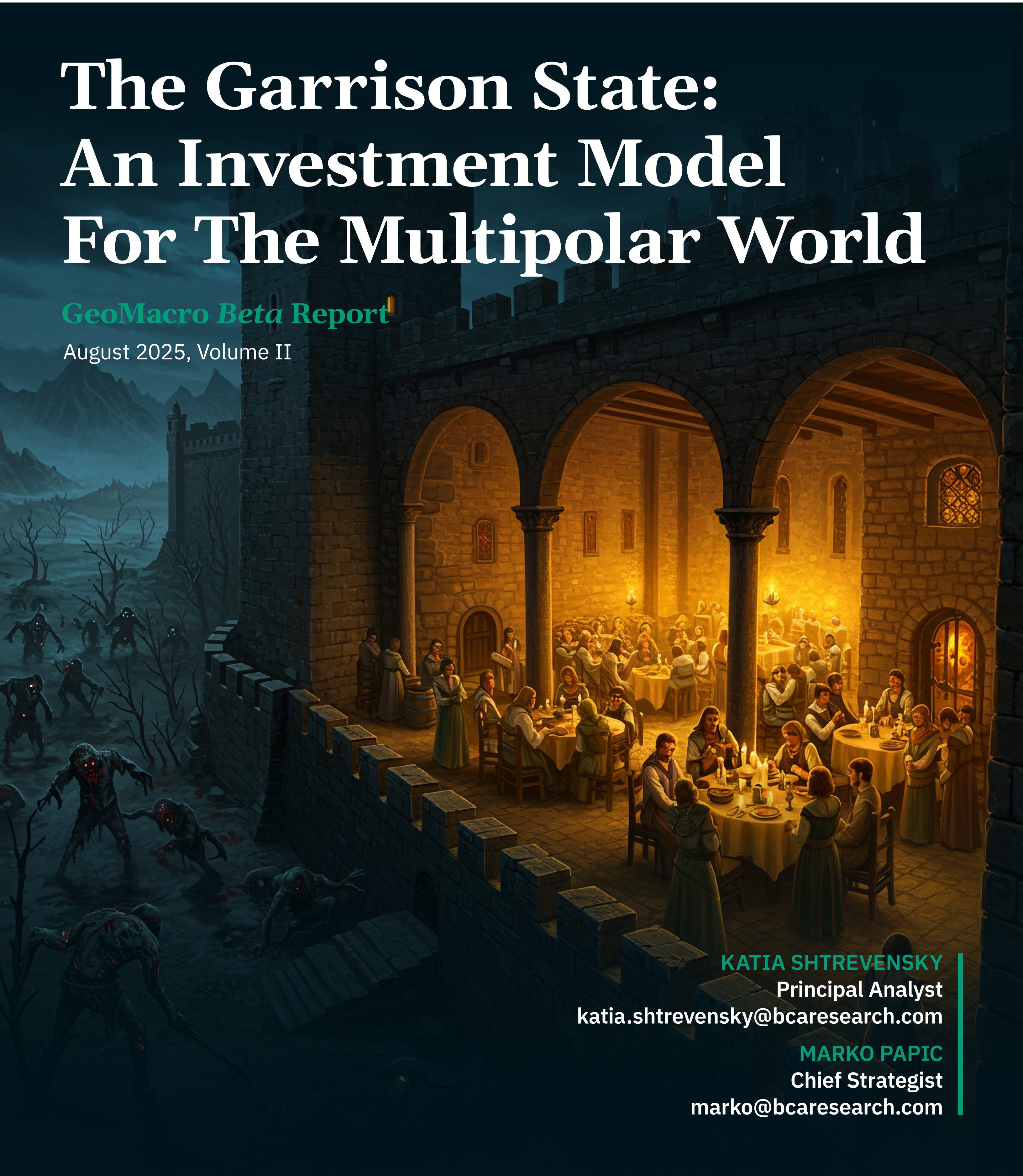
The Garrison State: An Investment Model For The Multipolar World

GeoMacro *Beta* Report

August 2025, Volume II



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GeoMacro Report
The *Beta* Report

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GeoMacro *Beta* Report: The Garrison State: An Investment Model For The Multipolar World

In this Issue

Top Takeaway: Stay strategically overweight the reform-minded, security-backed UAE/GCC for dependable geopolitical *alpha*. Keep Ukraine and Kazakhstan on the radar – enter once hostilities fade and reforms bite.

- *Garrison states* can deliver outsized returns when credible external defense back-stops align with aggressive economic reforms.
- A fragmenting, multipolar world makes this framework increasingly valuable for capital allocation.
- History corroborates the thesis: post-war West Germany and Cold-War South Korea outperformed once security was assured and reforms locked in.
- The UAE/GCC already meet both tests – robust security guarantees plus ambitious diversification – supporting an overweight stance.
- Ukraine and Kazakhstan are “too early but promising,” warranting monitoring as security risks fade and reform momentum strengthens.

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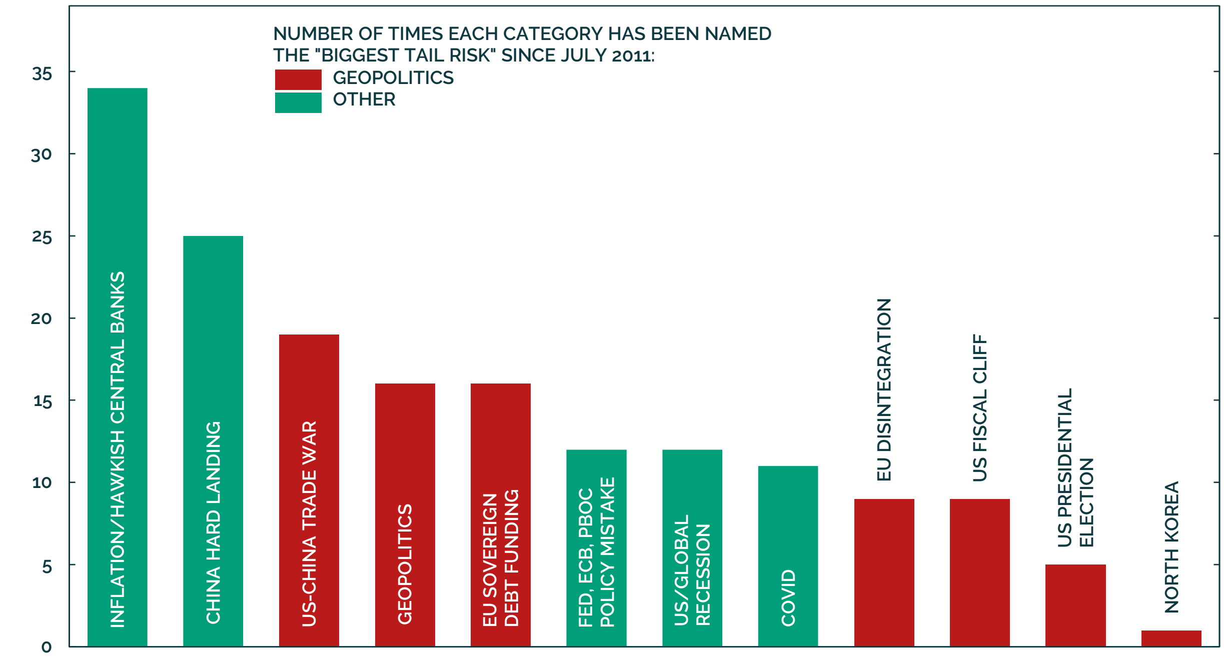
The Garrison State: An Investment Model For The Multipolar World

Geopolitics has made a vicious comeback as a market-relevant factor. The vast majority of our epistemic community – having become accustomed to thinking that "Fed Watching" is an honest way to make a living – is simply unprepared to think like their nineteenth and early twentieth century peers. In those heady days of swashbuckling geopolitical volatility, investors had to constantly incorporate geopolitical analysis into tactical and strategic asset allocation. Today, on the other hand, most of our clients and peers think of geopolitics as a *risk*, constantly mistaking "pearl clutching" for actual analysis (**Chart 1**).

CHART 1
Geopolitics Takes Center Stage As Investment Risk



SOURCE: BOFA GLOBAL FUND MANAGER SURVEY.
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Nowhere is this more pronounced than in the assessment of the Middle East as "risky" and the US as "safe." The lazy adage that two oceans protect America from vagaries of global competition while the Middle East is beset with wanton geopolitical crises ignores historical precedent. Precedent that has repeatedly illustrated that "garrison states" quite often do quite well in the economic and investment realms, especially when surrounded by persistent geopolitical risk.

What is a garrison state? In this analysis, we argue that being an island of stability in a constantly evolving geopolitical tempest is a boon, not a curse. Throughout history, countries that have had to overcome a dangerous neighborhood or a particularly roguish neighbor have often outperformed their safer, lazier, peers.

A garrison state can, therefore, be an economy that is forced to boost domestic productivity in order to survive an existential competition against a rival. Or a state that is so critically important to its allies that it is showered with geopolitical, economic, and financial benevolence. With that benevolence come competitive borrowing rates, unfettered access to markets of large allies, and technological exchange that allows the garrisoned state to outperform rivals.

There are three analogues for how we think of garrison states:

Frontline Garrisons: This is a classical garrison state. A state on the frontlines of superpower competition. Think West Germany during the Cold War. The entire Western defensive architecture during the Cold War rested on the idea that West Germany, aligned with the US and other NATO member states, would be able to hold off a Soviet tank charge through the Fulda Gap. In addition, West Germany – in relation to *East* Germany – became an ideological bulwark that illustrated the superiority of democracy and capitalism. As such, the economic and financial success of West Germany was just as important as its geopolitical survival, to many more than just its own citizens. Ultimately, it was a country that was not allowed to fail, lest all of the West was deemed inferior to a Marxist model of societal ordering. What country is the West Germany of today? In this report, we argue that it is most clearly Ukraine, with the border between the spheres of influence of Russia and the West having decidedly moved to the East since the end of the Cold War. However, we also conclude that Ukraine does not yet satisfy the conditions for investability, given that it is engaged in an actual hot war.

Geographical Garrisons: While there was a geographical component to West Germany's relevance, it was not an exclusive factor. Other examples, however, are far more indexed on their geographical relevance. Take Singapore, which sits astride key critical maritime trade routes, giving it critical importance during the Cold War (and before), but still today as well. Geographical relevance attracts FDI, human capital, and broad geopolitical benevolence from powerful allies. With those three factors comes financial wherewithal and technological acumen. Singapore was not born as a financial capital, but it developed into one over time due to its role as a trade and commodity trading logistical hub. All this occurred despite the fact that it sat astride quite volatile neighbors. Today, we see the rapid development of the financial (and broader, *services* architecture) sector in the UAE as parallel to the development of one in Singapore. What started as simply a commodity outpost in a dangerous neighborhood has, through ingenuity and hard work but also good fortune of being a garrison state, emerged as a burgeoning *global* financial center.

Neutral Garrisons: The final model of a garrison state are those particularly wily locations that parlay their neutrality into geopolitical *alpha*. Yugoslavia stands as the clearest example from the Cold War. The country profited handsomely from its hard-fought neutrality by being able to arbitrage the *non-trade* trade between the Soviet Union and the West. Its collapse is the evidence of its geopolitical relevance, as once the Cold War ended, its very "business model" ended as well. Today, a country like Kazakhstan may be "too important to divide." Neutral states parlay the competition between powerful states into relevance and, thus, benevolence. Like children of divorced parents, these garrison states get to enjoy two birthday parties, two Christmases, etc.

We pen this report as a follow up on last month's net assessment of the Middle East in which we argued that global investors have to stop worrying about the "end of times" and focus on the pockets of stability in that region.[1] It adds no value to point out the obvious, which is that the Middle East is a cauldron of geopolitical instability. But one ought to ask why certain states in the middle of that morass – namely Saudi Arabia and the UAE – have been able to sail through the tempest unscathed.

In today's multipolar world order, investors should expect much more geopolitical volatility, beyond the Middle East. As we have argued *since 2012*, multipolarity leads to higher frequency of conflict, an assertion that has now become a fact (**Chart 2**). But war and kinetic conflict is not a reason to buy US tech stocks and hide behind safe haven assets. If our clients are going to retrench their global exposure every time a war emerges, they are in for a rude awakening of portfolio underperformance.

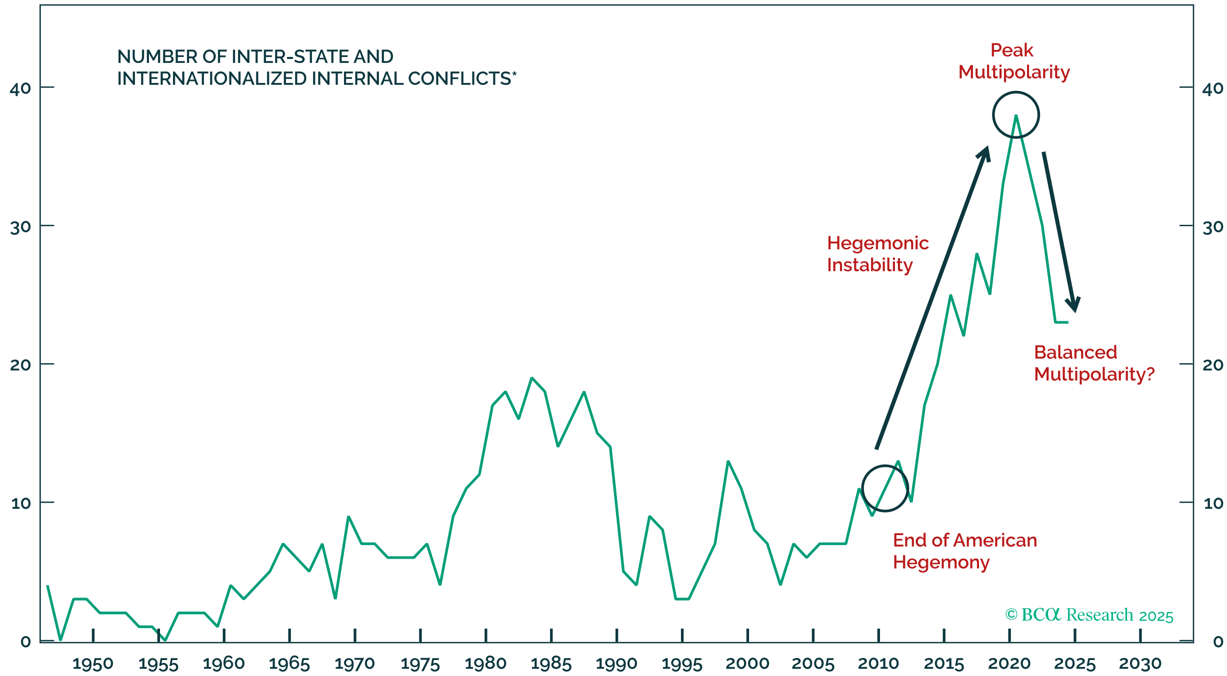
This is both because not all conflict is investment relevant – take the Israel-Iran conflict as the extreme example of that assertion, or the Thailand-Cambodia conflict as the more obvious one. And because conflict can create garrison states, those highly focused gems translate heightened risk of existential threat into economic and market outperformance. That churns sour geopolitical fear into smooth geopolitical *alpha*.

To be an investor in this multipolar world, our clients have to evolve their perception of geopolitics as a *risk*-factor into a *macro*-factor. This is no time to remain sheltered and afraid. Geopolitical risk is a *good* thing.[2] Just like pressure makes diamonds and childhood diseases train immune systems for later life, wars and geopolitical stress focuses and sharpens policy towards productivity.

1 Please see *BCA Research, GeoMacro Strategy, Beta Report*, "The Spice Must Flow," dated July 2025, available at bcaresearch.com.

2 Please see *Marko Papic*, "War Is Good," dated January 2023, available on request at geomacro@bcaresearch.com.

CHART 2
Multipolarity Breeds Conflict



* DEFINED AS THE NUMBER OF CONFLICTS BETWEEN TWO TYPES OF DYADS (PAIRS): INTERSTATE CONFLICTS WHICH INVOLVE TWO STATES, AND INTERNATIONALIZED INTERNAL CONFLICTS WHICH INVOLVE A STATE AND ORGANIZATION SUPPORTED BY ANOTHER STATE.
SOURCE: UPPSALA CONFLICT DATA PROGRAM.

Pressure Builds Diamonds: Historical Examples Of Garrison States

Garrison states become garrisoned following a calamity, a war, or a geopolitical re-alignment. **Table 1** illustrates the economic performance of such states, following a particularly relevant geopolitical event, relative to their economic peers.

Across eleven historical "garrison state" episodes, four cases emerge as clear outperformers: Singapore (1966 base), South Korea (1954), Taiwan (1950) and West Germany (1949). Each compounded above 4-5% a year in terms of real GDP per capita, handily beating every comparator in their regional peer groups. Each combined an iron-clad external security guarantee with sweeping domestic reforms – export-platform industrialization underpinned by the FPDA/US security umbrella in Singapore, land redistribution and export-led industrial policy in Korea and Taiwan, and the Marshall Plan-backed "social-market" model in Germany – allowing capital to ride a decades-long convergence wave. Meanwhile, alignment with the hegemon gave each access to below-market-priced capital and unfettered access to a consumer market.

Singapore is the example with the highest long-run growth in our sample. At independence, it faced a garrison-state dilemma: Indonesia's "Konfrontasi," an uneasy separation from Malaysia, and the sudden draw-down of British forces could have forced the new city-state into costly rearmament. Instead, the Five Power Defence Arrangements

TABLE 1

Performance Dispersion In Garrison States

		REAL GDP PER CAPITA CAGR											
EVENT	**"TIME PERIOD ANALYZED"**	**AFFECTED COUNTRY**	**PEERS**										
Singapore Independence	1966-Present	**Singapore**	South Korea	Taiwan	China	Malaysia	Indonesia	Thailand	Vietnam	Philippines			
		5.36%	5.47%	5.23%	4.99%	4.01%	3.86%	3.61%	3.21%	2.08%			
End of Korean War	1954-Present	**South Korea**	Taiwan	Singapore	China	Thailand	Malaysia	Indonesia	Vietnam	Philippines			
		5.13%	5.08%	4.85%	4.37%	3.65%	3.62%	3.19%	2.88%	2.07%			
KMT Retreat to Taiwan	1950-Present	**Taiwan**	South Korea	China	Singapore	Thailand	Malaysia	Indonesia	Vietnam	Philippines			
		5.12%	5.31%	4.52%	4.42%	3.58%	3.35%	3.25%	2.87%	2.23%			
Start of Cold War	1949-1985	**Germany**	Italy	Spain	Portugal	France	Netherlands	UK					
		4.34%	4.16%	4.12%	3.95%	3.23%	2.69%	2.00%					
Tito-Stalin Split	1949-1985	**Yugoslavia**	Former USSR										
		3.97%	2.64%										
Russia-Georgia War	2009-Present	**Poland**	Lithuania	Romania	Latvia	Hungary	Albania	Estonia	Bulgaria	Croatia	Slovakia	Czech Rep.	Slovenia
		3.91%	4.24%	3.93%	3.42%	3.24%	2.98%	2.98%	2.81%	2.53%	2.12%	1.95%	1.80%
Start of Vietnam War until Opening of China	1956-1972	**Thailand**	Taiwan	Singapore	South Korea	Malaysia	Indonesia	Philippines	China	Vietnam			
		4.02%	6.09%	5.94%	5.76%	2.66%	2.04%	1.72%	1.16%	0.30%			
War on Drugs	1985-2015	**Colombia**	Chile	Peru	Brazil	Argentina	Mexico	Venezuela					
		2.24%	3.35%	2.34%	2.08%	1.95%	1.70%	0.69%					
Six-Day War	1968-Present	**Israel**	Egypt	Saudi Arabia	Qatar	UAE	Kuwait						
		2.22%	3.73%	2.99%	1.76%	1.13%	1.30%						
KSA-USA Petrodollar Agreement	1975-2019	**Saudi Arabia**	Egypt	Qatar	Kuwait	Israel	UAE						
		2.26%	3.92%	2.32%	2.15%	1.70%	1.39%						
Afghanistan War	2002-2021	**Pakistan**	Bangladesh	Vietnam	Sri Lanka								
		2.75%	5.74%	4.82%	3.86%								

SOURCE: MADDISON HISTORICAL DATABASE.

(FPDA) – later reinforced by US access agreements – delivered a credible external security guarantee at minimal fiscal cost. That back-stop freed the government to pursue an outward-looking growth model. The Economic Development Board's export-platform strategy lured foreign multinationals into purpose-built estates such as Jurong with 100% ownership rights, tax holidays, and one-stop permitting. That, combined with disciplined macro policy, allowed for an annual real GDP per capita growth rate of 5.4% from 1966 onward, eclipsing Southeast-Asian peers.

Over the next two decades, Singapore's macro stability, export platform strategy and security shield turned it into a frontier growth star: investors who could navigate the tightly controlled channels of the 1970s earned roughly 10% a year in local-currency terms from the STI's 1966 base through 1985, even though access was confined to ad hoc custodians and exchange control approvals.

True market openness arrived only in 1987, when the bourse admitted foreign brokers and lifted most trading restrictions. By that point Singapore had already matured into a high income, dividend heavy developed market, at least relative to its peers. Its index leaned toward banks, property and telcos, the Monetary Authority's strong SGD policy capped export windfalls, and a small domestic base limited volume growth. The early frontier juice was gone, so throughout the 1990s, investors who entered after liberalization saw solid – but no longer region leading – returns relative to the higher beta, still catching up markets of Indonesia, Thailand and Malaysia (**Chart 3**).

CHART 3
Singapore: Early Surge, Second-Decade Slump

* REBASED TO DECEMBER 1987 = 100.
SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

In South Korea and Taiwan, the early "tiger" growth was largely off limits to overseas capital for nearly three decades. Until the mid-1980s, both countries kept tight capital account controls: equity markets were closed to non-residents, portfolio quotas were zero, and even joint-venture FDI required case-by-case approval. Public equity access simply did not exist: the Korea Stock Exchange barred foreigners until 1981; the first legal conduit was the closed-end Korea Fund launched in 1984. Taiwan's bourse opened in 1961 but remained off-limits until the Taiwan Fund (1986) and a qualified foreign institutional investor (QFII) system in 1991. In short, most of the spectacular productivity gains in Seoul and Taipei accrued behind a regulatory firewall that mainstream global investors could observe but not own.

West Germany was different. The Deutsche Mark became fully convertible by 1958, Frankfurt's stock and bond markets welcomed non-residents, and Marshall Plan-era institutions had already normalized cross-border clearing. Foreign investors could buy Bunds, provincial debt, and blue-chip equities decades before Asia's Tiger markets opened. They were well rewarded: Germany equities returned 17.5% and bonds 9% on an annual basis between 1949 and 1985, leaving all other European peers, and even the US, trailing by an order of magnitude (**Chart 4**).

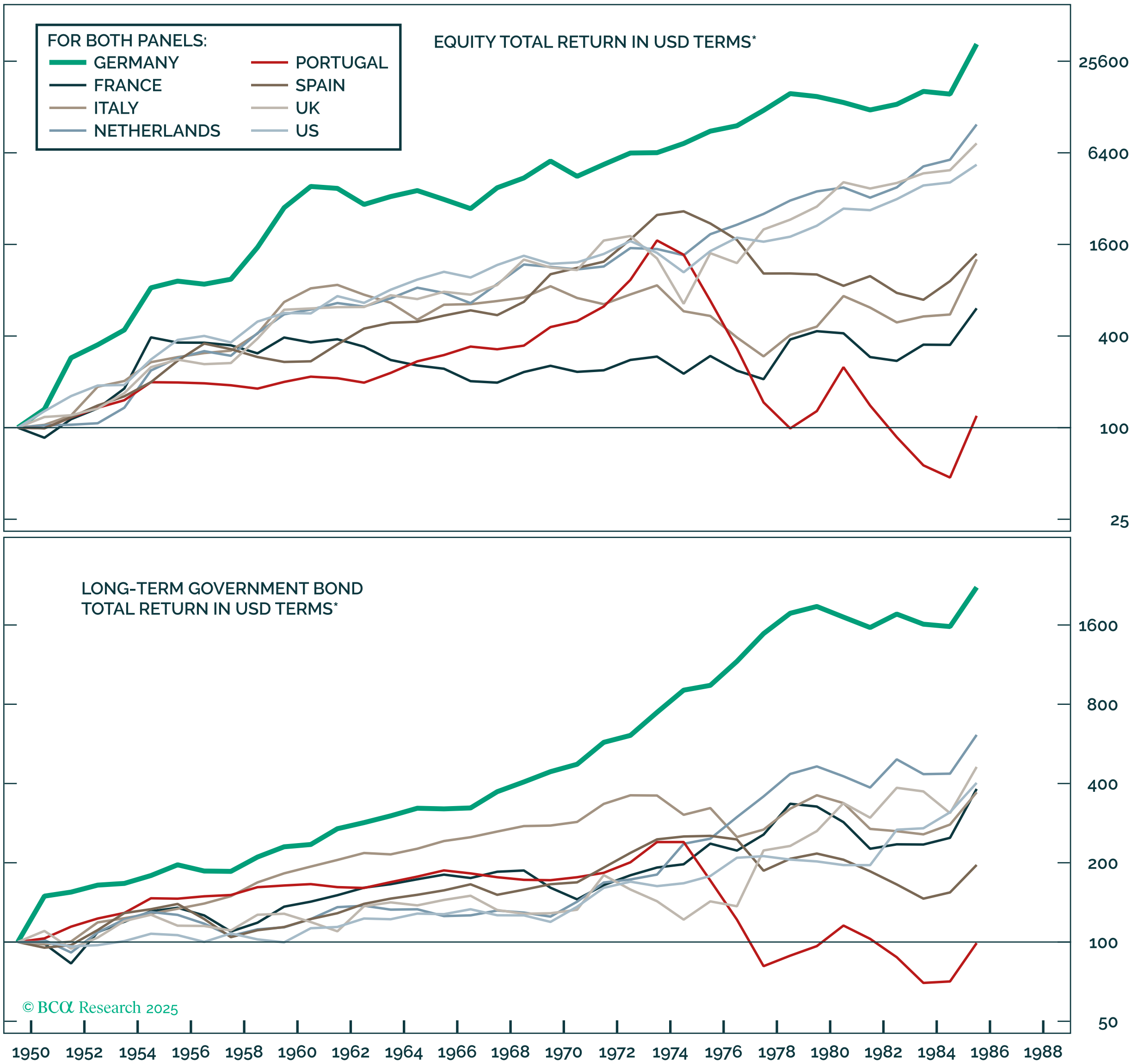
Several reasons lie behind Germany's stellar returns.

First, Germany was at a uniquely low starting point. War damage and the 1945-48 output collapse pushed German real GDP to only 50% of its 1938 level, leaving physical and financial assets priced at fire-sale levels.

Second, the Marshall Plan provided capital and know-how that jump-started the *Wirtschaftswunder*, boosting productivity. Despite receiving 11% of Marshall Plan disbursements – versus the UK's 26% share, for example – Germany channeled the funds into the Credit Institute for Reconstruction (KfW), which issued long-term loans to industry and infrastructure, whereas the UK used most of its aid to pay for food, raw-material imports and sterling-area liabilities. As a result, Germany sustained investment rates consistently higher than those of most European peers (**Chart 5**). That sustained capital deepening – financed first by KfW loans and later by buoyant export earnings – fed a productivity boom that ultimately added to the outsized equity and bond returns documented earlier. Finally, in 1948, the Deutsche Mark (DM) became fully convertible for non-residents, a newly independent Bundesbank kept inflation among the lowest in Europe, while an intentionally undervalued DM through the 1950s supercharged export profits. That undervalued currency received support of its trading partners due to the geopolitical relevance of West Germany to the defense of the West. Because foreign ownership of German stocks and bonds was never restricted, overseas investors could funnel capital into a market enjoying rapid earnings growth, low macro volatility and a strengthening currency – an ideal mix for outsized real total returns.

CHART 4

Germany's Post-War Power Play

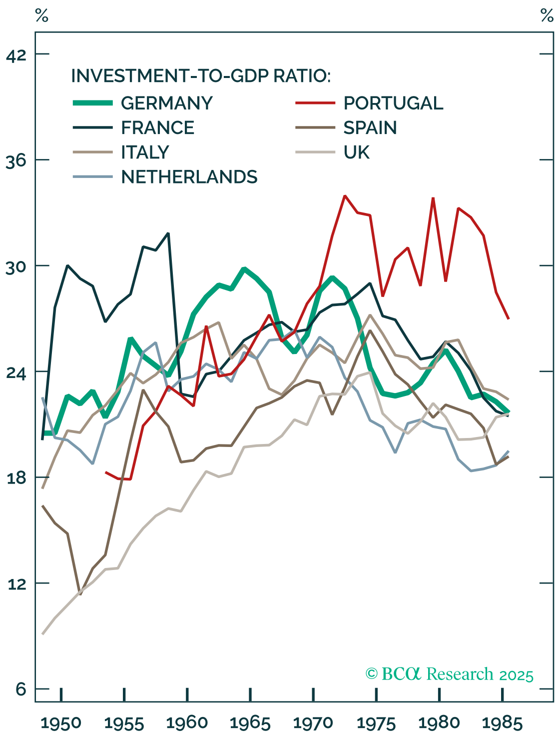


* REBASED TO 1949 = 100. SHOWN IN LOG SCALE.
SOURCE: ÒSCAR JORDÀ, KATHARINA KNOLL, DMITRY KUVSHINOV, MORITZ SCHULARICK, AND ALAN M. TAYLOR. 2019. "THE RATE OF RETURN ON EVERYTHING, 1870–2015." QUARTERLY JOURNAL OF ECONOMICS, 134(3), 1225-1298.

If Singapore, Korea, Taiwan, and West Germany demonstrate how states surrounded by geopolitical risk *can* deliver textbook "miracles," a second tier of cases shows that conflict alone is no ticket to stellar returns.

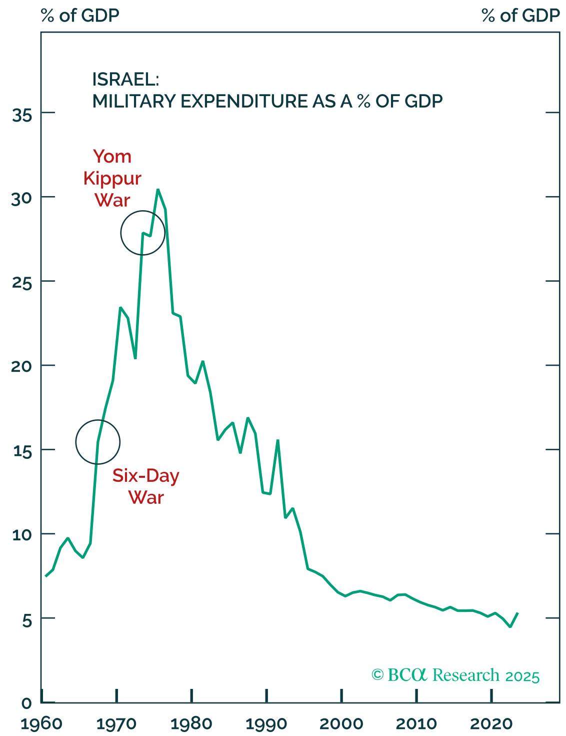
Israel delivered respectable growth since 1968 but still trailed hydrocarbon-rich Egypt and Saudi Arabia. The country's post-1967 growth underperformed for a trio of structural reasons. First, defense spending exploded as the Six-Day victory segued into the War of Attrition, the 1973

CHART 5
Aid-Driven Investment Boom



SOURCE: ÒSCAR JORDÀ, MORITZ SCHULARICK, AND ALAN M. TAYLOR. 2017. "MACROFINANCIAL HISTORY AND THE NEW BUSINESS CYCLE FACTS." IN NBER MACROECONOMICS ANNUAL 2016, VOLUME 31, EDITED BY MARTIN EICHENBAUM AND JONATHAN A. PARKER. CHICAGO: UNIVERSITY OF CHICAGO PRESS.

CHART 6
Crowded-Out By Security Spending



SOURCE: SIPRI.

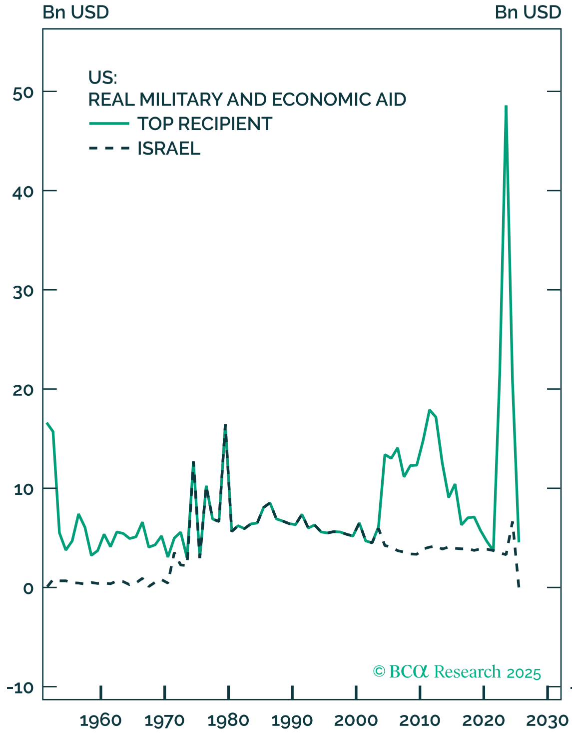
Yom-Kippur War and the 1982 Lebanon incursion (**Chart 6**). The budget deficit and money-financed arms imports drove inflation from single to triple digits by the early-1980s. High and volatile real interest rates crowded out private investment, while repeated devaluations and wage-indexation deals locked the economy into a stop-go cycle. Second, Israel lacked the oil windfalls that lifted Egypt (post-1973 remittances plus Suez tolls) and Saudi Arabia. Instead, it ran chronic current account deficits and depended on US military and civilian aid (**Chart 7**). Third, the Arab boycott narrowed export markets just as the Asian Tigers were plugging into global supply chains, so Israel's trade-to-GDP ratio stagnated until the high-tech pivot of the 1990s. Together these forces kept real GDP-per-capita growth near 2.2% a year – respectable, but well below hydrocarbon-rich or low-base comparators.

For investors the pickings were thin before the macro-stabilization plan of 1985. Because Israel spent much of the 1970s-80s in a quasi-mobilized state, markets never enjoyed the clean "end-of-war rebound" that powered West Germany's *Wirtschaftswunder*. Instead, total returns whipsawed and, when the high levels of inflation are factored in, real returns were actually negative in the 60s and 70s.[3]

[3] Please see *Bank of Israel*, "Are Israeli Stock Prices Too High?," dated July 1994, available at boi.org.il.

CHART 7

Persistent Reliance On American Aid



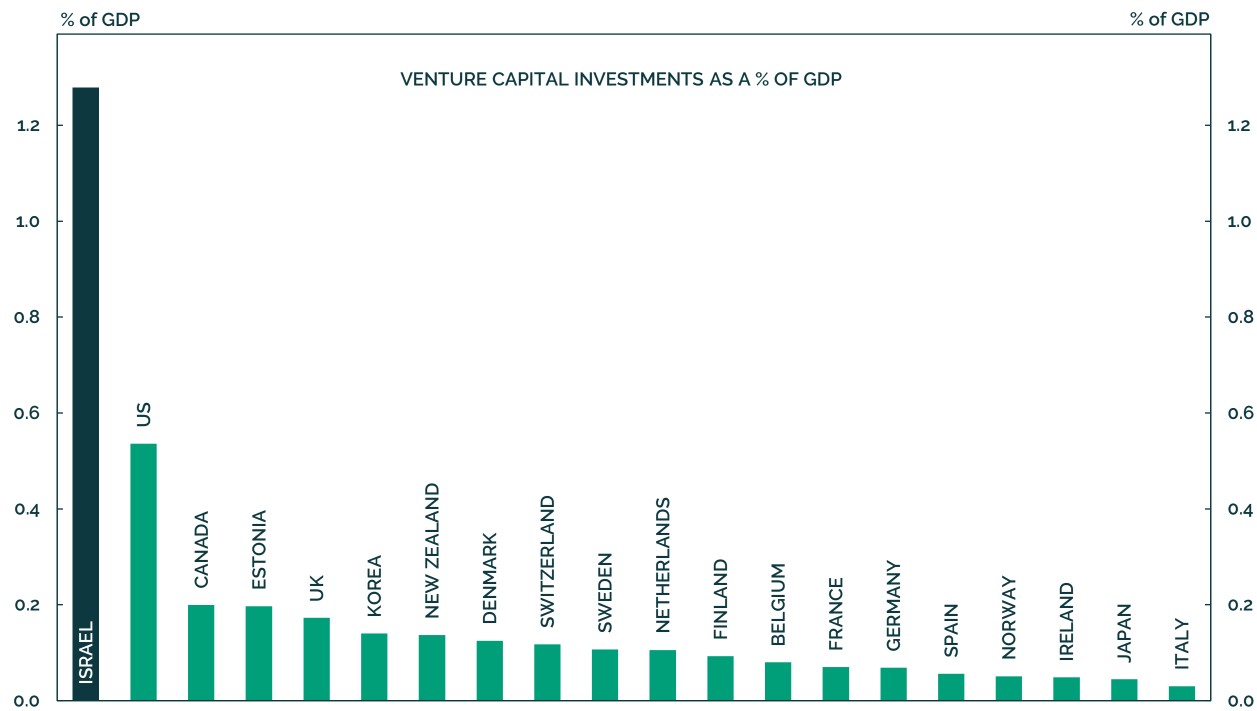
SOURCE: FOREIGNASSISTANCE.GOV.

For investors, that volatility was compounded by limited access: capital account controls barred non-residents from buying Israeli equities until the late-1980s liberalization, and even then, currency-risk worries persisted. Foreign participation was basically limited to Israel Bonds and a handful of NYSE-listed ADRs. Only in 1993 were non-residents formally allowed to trade all TASE listings. Israel's sub-par macro trajectory was mirrored by anemic, hard-to-access asset class returns until the post-1985 stabilization and 1990s tech boom rewired the economy – and the investability – for global capital.

Nonetheless, Israel is obviously and by any measure a far superior economy than that of Egypt and even Saudi Arabia. It has one of the most sophisticated venture ecosystems (**Chart 8**). Its technological innovation owes much to its highly educated and

CHART 8

Israel's Superior Technological Scale And VC Sophistication



NOTE: DATA AS OF 2024. DATA FOR ISRAEL AND JAPAN AS OF 2023.
SOURCE: OECD.

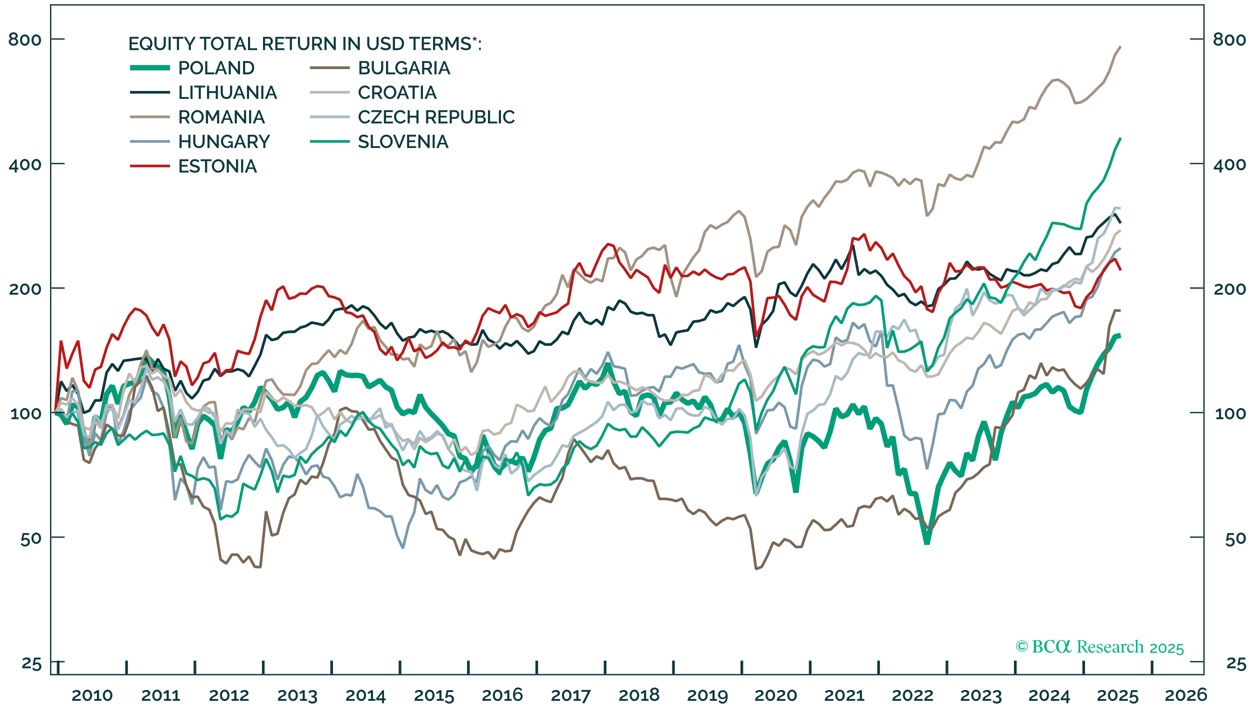
entrepreneurial population, but also to the reality that its very existence is leveraged to constantly maintaining a technological edge relative to its regional enemies.

Poland stands out following the 2008 Russia-Georgia War: EU/NATO accession lifted it to the top of Central-Eastern Europe in terms of GDP per capita growth. Yet its equity market lagged badly (**Chart 9**). Nearly 70% of Poland's equity index are financials, energy, and utilities – sectors with heavy state ownership. Policy unpredictability impacting these sectors, such as retroactive windfall tax, bank asset taxes, or pension reform shocks put downward pressure on equity prices. That, combined with a 20% PLN depreciation versus the USD since 2009, erased USD returns.

Pakistan – despite massive security aid after 2001 (**Chart 10**) – lagged Bangladesh and Vietnam because of weak macro fundamentals and security risks. Export concentration in cotton textiles, weak tax mobilization and fragmented politics implied a lack of competitiveness. On the macro side, energy shortages in 2007-14, repeated IMF rescues, and a chronically overvalued rupee kept investment low, and periodic insurgency spikes scared off FDI.

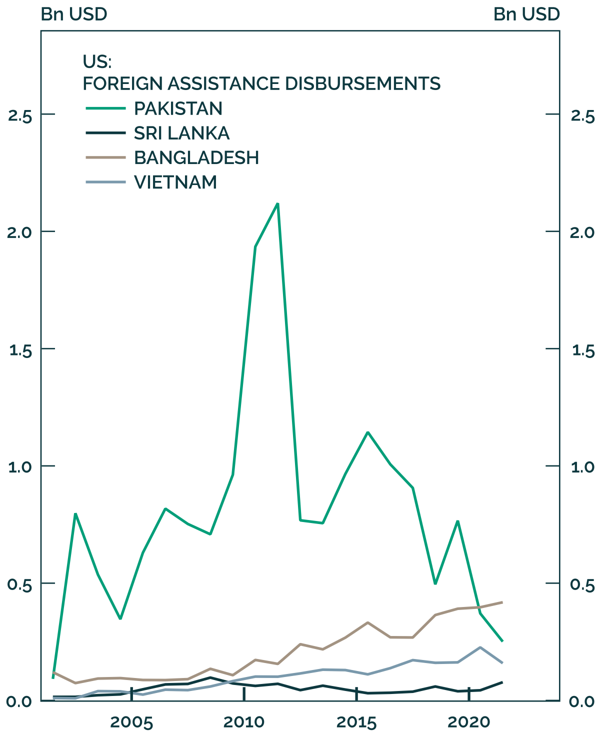
Foreigners have been able to buy Karachi-listed shares since 1991, and MSCI has maintained a Pakistan index since 1994. The problem was payoff, not access: the MSCIPakistan Index delivered only 3.7% annual USD returns from 2002 through 2021, versus 7.9% for MSCI Frontier Markets. Local-currency gains were

CHART 9
Poland's Market: Regional Laggard



* REBASED TO DECEMBER 2009 = 100.
SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

CHART 10
Biggest Aid, Smallest Payoff



SOURCE: FOREIGNASSISTANCE.GOV. © BCA Research 2025

repeatedly erased by rupee devaluations of 30-40% and by a 2017 downgrade from Emerging to Frontier status that triggered forced outflows. Pakistan fits the *frontline garrison* archetype where heavy security spending and weak structural reform keep both macro and asset price performance stuck in the lower half of the peer table, even when foreigners have a clear route in.

Yugoslavia's near 4% GDP growth rate post-1949 surge illustrates the upside of non-alignment, but financial markets were limited, providing only narrow lanes for foreign capital, and returns were more respectable than spectacular. Hard-currency Eurobonds and syndicated loans in the 1970s came with coupons of about 8-9% – only 25 bps over LIBOR, comfortably above the 6-8% on US Treasuries but tighter than the 50-70 bps over LIBOR offered by Italian or Spanish Eurobonds.[4] Joint-venture manufacturing projects – legalized in 1967 – reported accounting profits in the 11-13% range once export quotas and remittance delays were netted out.[5] Seen against developed market benchmarks, the premium looked attractive and was initially viewed as investment-grade quality, thanks to Yugoslavia's IMF membership and *détente*-era political goodwill.

Yet these channels carried built-in ceilings. Profit-sharing was capped, equity exits were impossible without a stock exchange, and all payments relied on a single-party state whose macro discipline frayed after the 1973 oil shock. When Belgrade declared a debt-service standstill in 1981, Eurobond prices collapsed and profit-remittances froze. In short, Yugoslavia offered foreign investors a decent yield bump over OECD assets but never the super-normal, equity-style returns available in Singapore, West Germany, or later, ASEAN. Nonetheless, it still fits our model of a garrison state because it *vastly* outperformed its Eastern European peers who were both macroeconomic basket cases and uninvestible.

Colombia's "front-line-at-home" garrison story never translated into high, sustained growth. Despite more than $17 billion in real US security and economic aid between 1985 and 2015, real GDP per capita rose only 2.2% annually over the same period. Several

4 Please see *IMF*, "V International Bond and Note Markets and Other Flows," dated February 26, 1986, available at elibrary.imf.org.

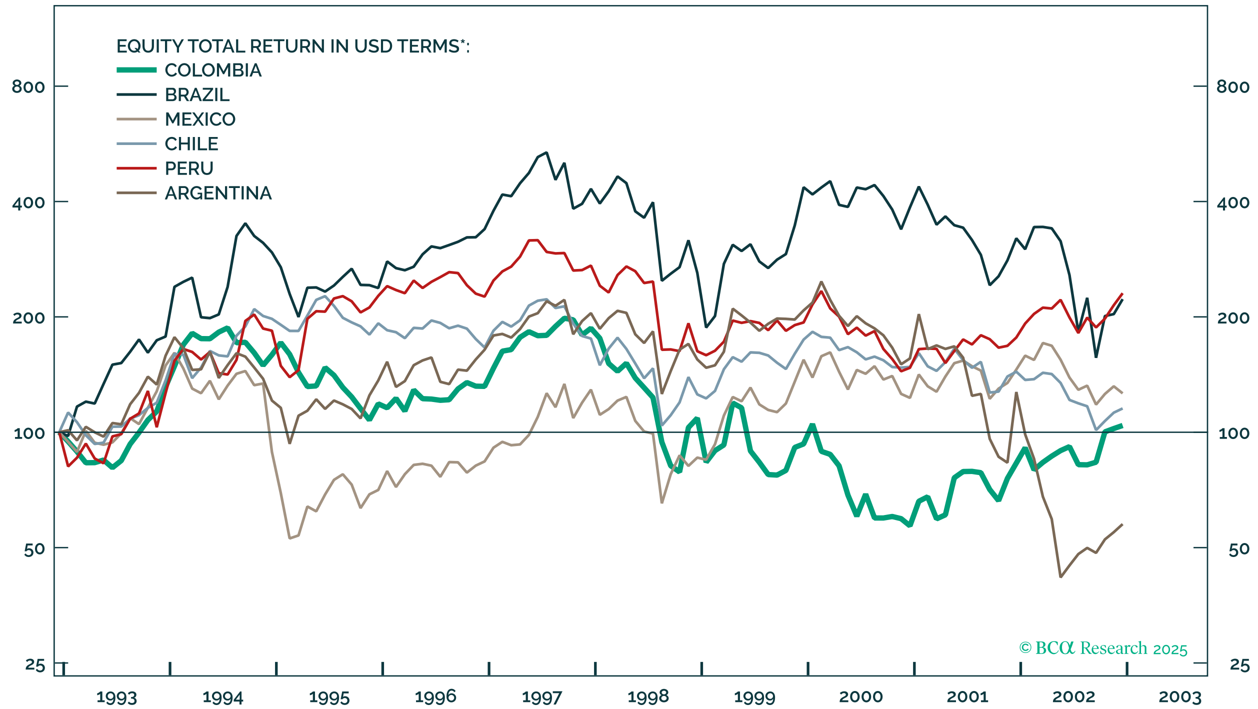
5 Please see *JSTOR*, "Joint Ventures in Yugoslavia," dated Winter, 1976, available at jstor.org and please see *ResearchGate*, "Joint Ventures in Yugoslavia: Opportunities and Constraints," dated February, 1985, available at researchgate.net.

structural drags explain the gap. First, security spending and the narco-insurgency diverted resources: military spending as a share of GDP rose to the highest in the region during the War on Drugs while violence depressed investment. Gross fixed capital formation as a share of GDP dropped by 10 p.p. – peak-to-trough – in the 1990s. Second, trade liberalization in the 1990s was not followed with complementary labor- and tax-system overhauls, leaving capital and skilled labor trapped in low productivity, informally taxed activity. Third, the export basket stayed stuck on oil and coal, leaving the economy – and the peso – prone to every oil-price downdraft.

Equity returns mirror the policy malaise. Foreigners could buy Colombian shares as early as 1991, so access was never the main hurdle. Yet in the first decade of market access, Colombian shares returned only 0.4% annually in USD terms, with only the Argentinian bourse returning less (**Chart 11**). It was not until the start of the commodity supercycle that investors saw sizeable gains.

Finally, the Saudi-US petrodollar era shows that even a resource superpower must diversify or watch its early outperformance fade once the commodity cycle turns. Real GDP per capita grew only 2.3% a year from the first oil-boom peak in 1975 to 2019. Every surge in crude prices lifted incomes, but each collapse erased part of the gain, and diversification lagged: oil still made up 73% of exports on the eve of Vision 2030. Crucially, foreign investors were locked out of the market until June 2015 and only gained broad access with MSCI EM inclusion in 2019.

CHART 11
No Reform, No Reward



* REBASED TO DECEMBER 1992 = 100.
SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

Together these precedents suggest a template. Garrison states outperform only when two pillars line up: First, a durable external-security guarantee that tames tail-risk, and second, a reform burst that channels private capital into export-oriented, high-productivity sectors. Where both elements are present – West Germany and the Asian Tigers (Singapore, Korea, Taiwan) – real GDP per capita compounds above 4-5% and, once markets open, equities deliver double-digit USD returns. These are the *frontline + reform* winners of the model. By contrast, *frontline but unreformed* cases such as Pakistan squander the security dividend on oversized defense budgets or stalled reform, and listed returns evaporate. Neutral Yugoslavia unlocked respectable yields through cheap funding and controlled joint ventures, but caps on profit-sharing and a closed equity market kept performance middling. Geography-led hydrocarbon states like Saudi Arabia generate boom-and-bust GDP paths and, because capital-market doors open late, investors miss much of the upside while bearing the commodity volatility.

Table 2 presents our checklist for future garrison state outperformance.

Garrison states that can tick several boxes are the ones that can transmute geopolitical risk into sustained, market-beating opportunity. Miss more than one, and performance reverts to "respectable but middling," or worse.

Potential Present-Day Garrison States

The same three archetypes that shaped past success stories now frame today's investable garrison state frontier.

Ukraine

Ukraine could become the quintessential *frontline* candidate: still under fire yet already facing a reconstruction bill of $524 billion – 2.8 times its 2024 GDP – only $13 billion of which has been funded so far.[6]

[6] Please see *World Bank*, "Rapid Damage and Needs Assessment," dated February 24, 2025, available at worldbank.org.

TABLE 2
The Garrison State Checklist

PILLAR	WHAT TO LOOK FOR	WHY IT MATTERS
Security backstop	Formal defense treaty or credible great power guarantee; low, stable country risk spreads	Compresses discount rate; frees fiscal space for development spending
Big bang economic reform	Rapid trade & capital account opening; clean property rights; competitive FX policy	Converts security peace dividend into TFP growth and export momentum
Early capital market access	Foreign ownership allowed near the reform start date; transparent listing rules	Lets outside investors capture the first 10-15 yeras of high returns
Sector breadth & private control	Low levels of state ownership; incentives align with private profit	Prevents policy raids that flatten equity multiples
Diversification engine	Export basket shifts from single commodity to value added manufacturing/services	Cushions macro shocks; sustains high investment after aid or resource money fades

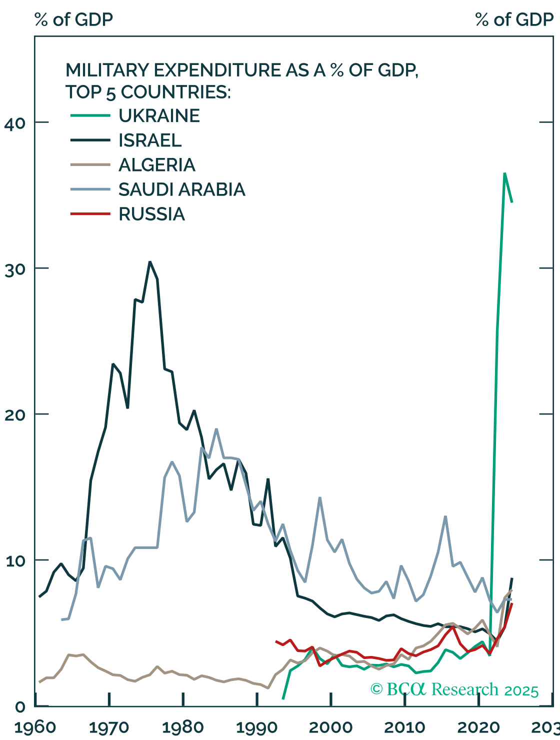
How does Ukraine fare on our checklist?

Security backstop: As historian M.E. Sarotte notes, "security guarantees are, for better or worse, inseparable from fixed borders,"[7] a condition West Germany met in 1955, but Ukraine does not today. Kyiv remains outside NATO and its Article 5 framework, and while Allies consult and deploy military aid, there is no binding mutual-defense guarantee. Moreover, Ukraine's military burden reached a staggering 34.5% of GDP in2025, the highest worldwide by far (**Chart 12**), leaving almost no fiscal space for reconstruction or civilian development until that share begins to decline. This deficit in both formal guarantees and macro-fiscal breathing room keeps political risk premiums elevated and limits the economic relief a clear security shield would otherwise provide.

In our view, Ukraine is not going to receive a formal security guarantee, perhaps ever. However, it already has an implicit guarantee given that it has received $430 billion in military and economic aid from the West, by far the most out of any other country in the world, including Israel (**Chart 13**). Ukraine is, for all intent, a member of the Western security alliance. Invading it will not trigger a nuclear war, Moscow can remain comforted by that fact. But it does trigger a massive armament effort that has forced the second-largest military in the world (Russia) to become bogged down in the country's marshes.

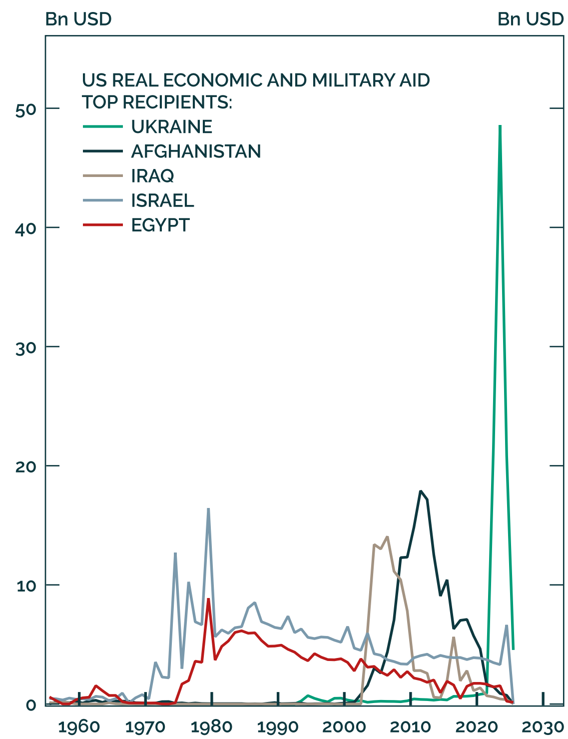
7 Please see *Foreign Affairs*, "NATO's Worst-of-Both-Worlds Approach to Ukraine," dated July 10, 2023, available at foreignaffairs.com.

CHART 12
Ukraine's Defense Budget Breaks All Records



SOURCE: SIPRI.

CHART 13
Record American Support For Kyiv



SOURCE: FOREIGNASSISTANCE.GOV. © BCA Research 2025

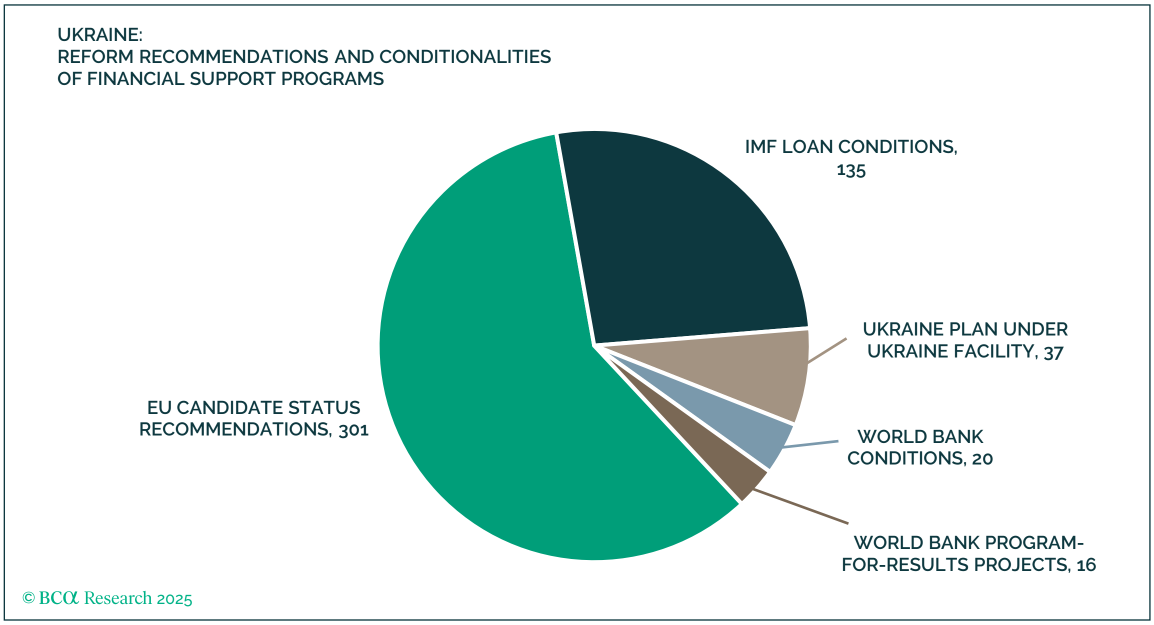
The problem is that investing in Ukraine today would be the definition of being far too early. As our chart above illustrates, Ukraine's military spending may have peaked, but it is still way too elevated. This is a *battleground*, not a garrison, state for the time being.

Big bang economic reform: Ukraine's reform agenda is being steered by five main frameworks. These programs collectively set specific benchmarks for better public governance, tighter anti-corruption controls, sounder fiscal and financial management, and gradual alignment with EU standards, forming a clear roadmap for recovery and long-term integration (**Chart 14**). While Ukraine has made good progress so far, having completed 45% of the recommendations, it still faces significant structural headwinds dating back to pre-war – labor market challenges, low integration into global value chains, low investment, and stagnant productivity (**Chart 15**). Meanwhile, quality of governance has improved since the low in 2015, but remains nowhere near OECD or even peer levels (**Chart 16**).

We are big believers in the rate of change concept. As such, the improvements are encouraging, but slow. We take comfort in the recent news that President Volodymyr Zelensky is facing a vicious public backlash for his recent decision to curb the independence of anti-corruption bodies in the country.[8] This is a positive sign that the public will not tolerate further compromise of anti-corruption reforms.

[8] Please see *BBC*, "Backlash grows after Zelensky strips anti-corruption bodies of independence," dated July 23, 2025, available at bbc.com.

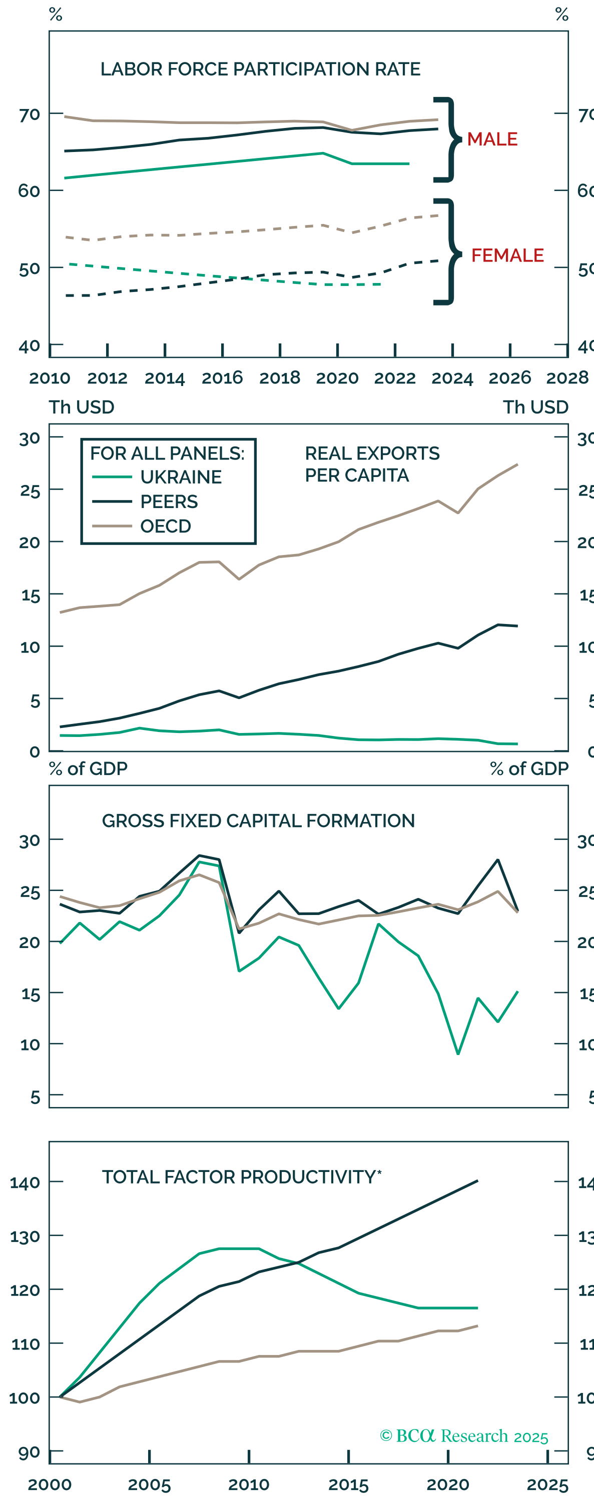
CHART 14
Ukraine's Long To-Do List To Unlock EU & Loans



SOURCE: CABINET OF MINISTERS OF UKRAINE.

CHART 15

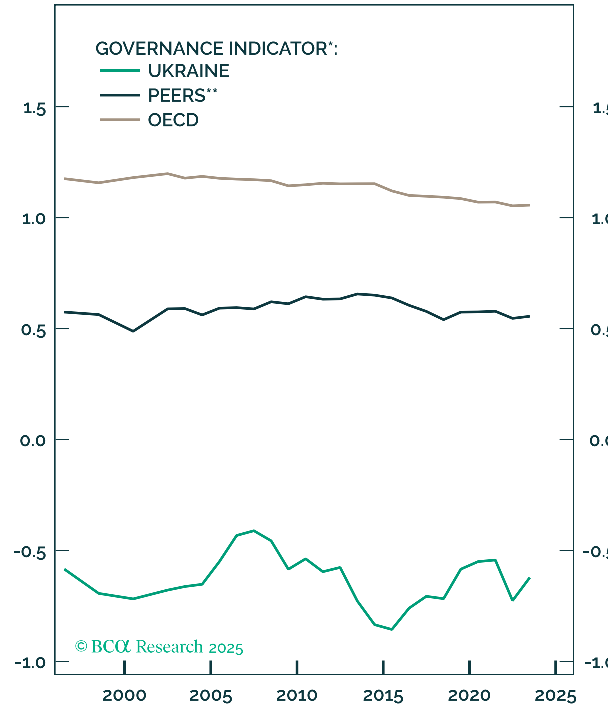
Structural Gaps Persist In Ukraine...



* REBASED TO 2000 = 100.
SOURCE: OECD ECONOMIC SURVEYS - UKRAINE 2025.

CHART 16

...And Governance Is In The Bottom Tier



* EQUALLY-WEIGHTED AVERAGE OF 6 GOVERNANCE INDICATORS: VOICE & ACCOUNTABILITY, RULE OF LAW, CONTROL OF CORRUPTION, POLITICAL STABILITY & ABSENCE OF VIOLENCE, AND GOVERNMENT EFFECTIVENESS.
** EQUALLY-WEIGHTED AVERAGE OF HUNGARY, LITHUANIA, POLAND, ROMANIA, AND SLOVAK REPUBLIC.
SOURCE: WORLD BANK.

Early capital market access: Ukraine's capital markets remain shallow and skewed toward sovereign paper. In 2023, government bonds accounted for 93% of trading volume, concentrated on just two trading platforms, while only a handful of corporate securities trade under rules that restrict execution to Ukrainian-licensed brokers.[9] Although Kyiv has tapped global investors with Eurobond issuances and wartime bonds since 2022 – foreign holders now own about 1.4% of the total treasury portfolio[10] – equity market access offers virtually no post-stability entry

[9] Please see *US Department of State*, "2024 Investment Climate Statements: Ukraine,", available at state.gov.

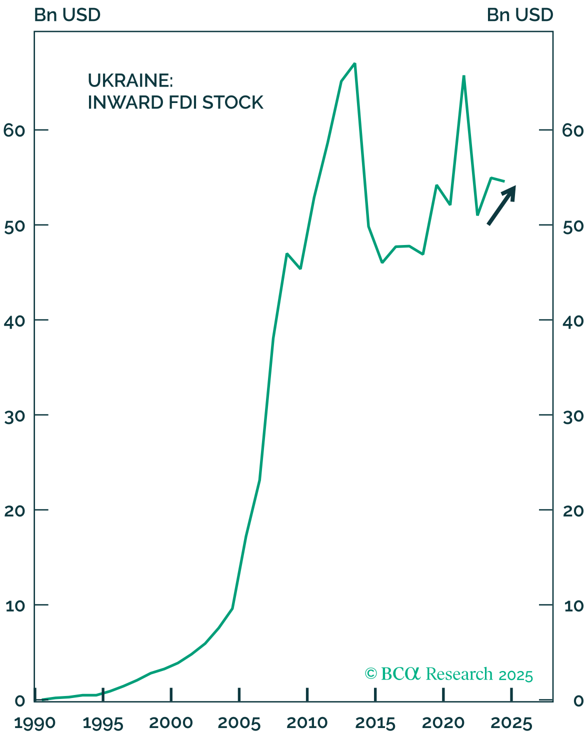
[10] Please see *Reuters*, "Ukrainian patriotism and profits spur boom in war bonds," dated October 10, 2024, available at reuters.com.

point, denying investors the initial "miracle run" seen elsewhere. To make up for the lack of portfolio flows, Ukraine has made inward FDI the centerpiece of its recovery strategy, launching dedicated agencies to guide foreign investors through the regulatory process and showcase "shovel-ready" opportunities. The strategy has – so far – paid off. Inward FDI stock has increased since the initial drop in 2022 (**Chart 17**), but restrictions remain high. Easing these further is a prerequisite to turning Ukraine's reconstruction drive into a sustained, self-financing growth engine.

Sector breadth & private control: In practice, Ukraine offers almost no liquid equity universe. The MSCI Ukraine USD Index currently contains just one constituent – a company that, for all its strategic importance, principally produces chicken. Other than that, Ukraine has two operating stock exchanges, with 22 companies trading. The state holds more than 50% of the shares of two of these companies.[11]

Diversification engine: While Ukraine's pre-war GDP mix is relatively balanced (**Chart 18**), exports remain heavily tilted towards commodities (**Chart 19**). Value-added goods – machinery & equipment, chemicals, and industrial manufactures – collectively account for barely one-sixth of exports. To sustain catch-up growth beyond the windfall-driven boom, Ukraine must rebalance toward high-margin manufacturing and digital services – the very sectors that propelled post-war garrison states like Singapore and South Korea. Rebuilding ports and logistics corridors will be essential to revive metal and machinery exports, while deepening ICT, professional and administrative service clusters (now only 4.4% of GDP) can provide the stable, non-commodity anchor that limits vulnerability to price swings and underwrites durable convergence.

CHART 17
Ukraine's FDI Push Gains Traction



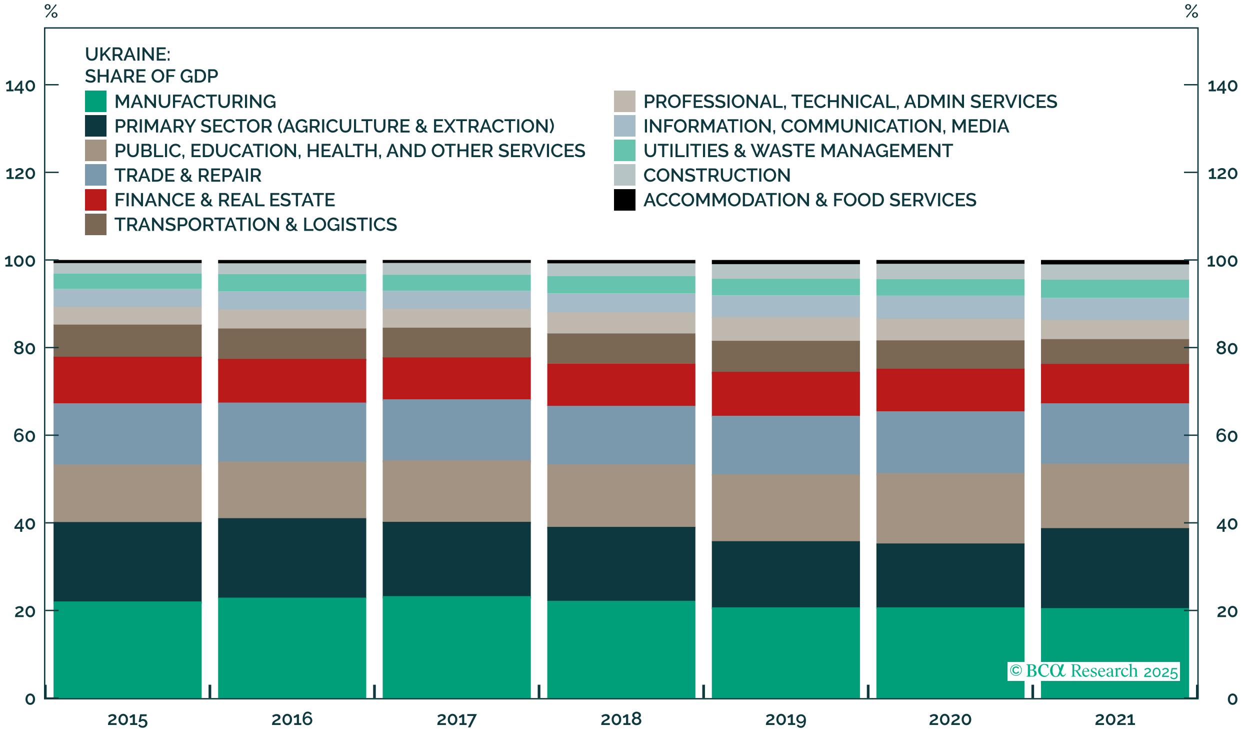
SOURCE: UN TRADE & DEVELOPMENT.

Taken together, Ukraine meets too few points on our garrison state checklist. It has launched an ambitious reform roadmap and is edging toward EU-standard governance yet still wrestles with deep pre-war structural drags. It has begun crowding-in FDI and issuing hard-currency bonds, but its equity window is all but closed. Most critically, it lacks the fixed-border security guarantee and fiscal headroom that unlocked West Germany's and Korea's miracles, while its export basket remains stuck in low-margin commodities.

11 Please see *OECD*, "OECD Economic Surveys: Ukraine 2025," dated May 6, 2025, available at oecd.org.

CHART 18

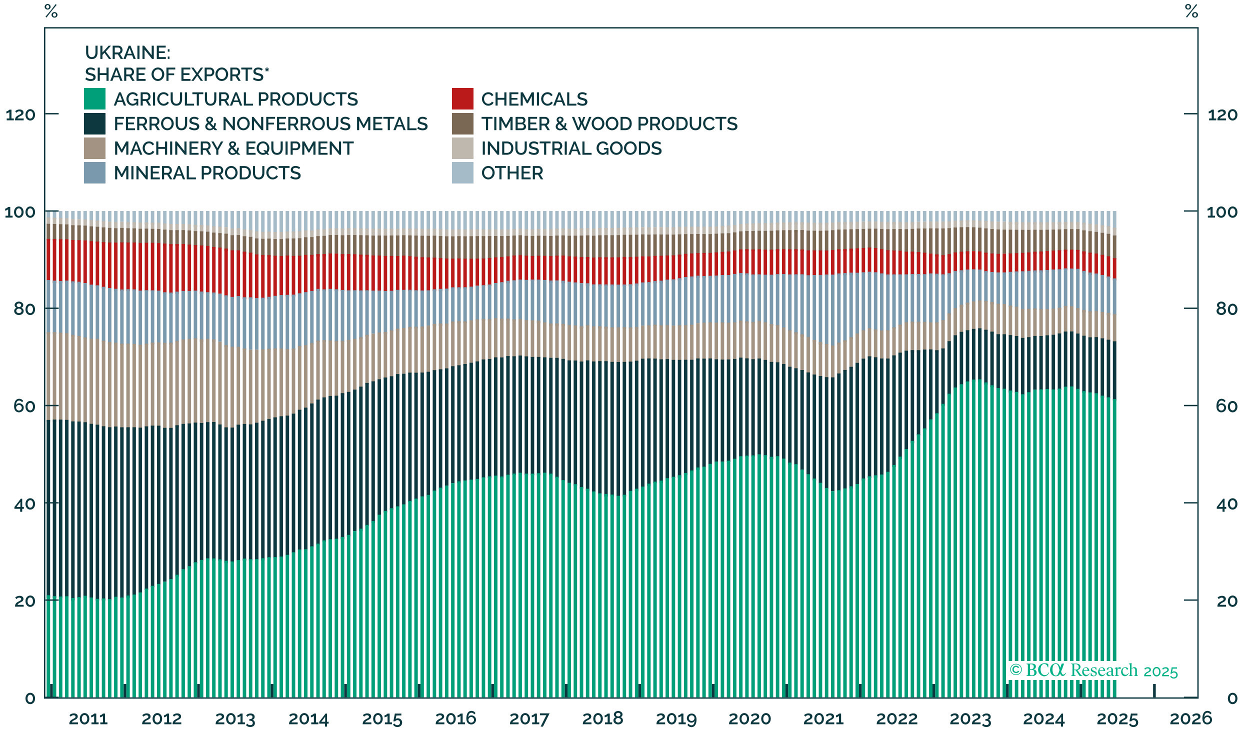
GDP Mix Is Balanced...



SOURCE: UKRAINE STATE STATISTICS SERVICE.

CHART 19

...But Exports Tilt More And More Towards Agriculture



* SHOWN AS A 12-MONTH MOVING TOTAL.
SOURCE: NATIONAL BANK OF UKRAINE.

That said, Ukraine simply exhibits signs of a "wartime state." Once the conflict with Russia ends, it is going to transition into a garrison state status. We have no doubt that the West will make it an existential task to ensure that Kyiv is a growing, functioning, economy. Investors should expect that it will continue to gain favorable access to both Western capital and markets, as it will become both a military and ideological frontline between Russia and the West. The US, even under President Trump (whose critics accuse the president of being pro-Russian) has gone out of its way to support Kyiv.

Kazakhstan

Kazakhstan fits the *neutral* template once occupied by Yugoslavia – resource-rich, strategically wedged between Russia and China, and leveraging pragmatic non-alignment to attract both Western and Eastern capital while avoiding formal bloc entry.

Security backstop: Kazakhstan follows a balanced foreign policy. It has a military cooperation plan with China and is allied with Russia via the Collective Security Treaty Organization (CSTO). The CSTO promises mutual defense comparable to NATO's Article 5, but the guarantee is contingent on unanimous political approval and has been applied unevenly in the past. At the same time, Kazakhstan has built a deepening partnership with the EU that is not primarily military, but edges into hard security space via strategically vital supply chains. With military spending at 0.4% of GDP, Kazakhstan is more strategically insulated than actively shielded, but it has skillfully leveraged its geography and resource endowments to keep security costs low while maximizing economic options. It has effectively turned itself into "two important to invade" for enough superpowers that it can leverage that relevance into security.

Big bang economic reform: Since the 2022 "New Kazakhstan" reset, Astana has rolled out waves of market-oriented measures – developing competition, reducing state stakes in the economy, and decreasing business costs. Yet a recent IMF review notes that structural priorities have advanced more on paper than on the ground, that reform implementation has not materialized, and state intervention has crept back up.[12] For investors, concrete privatizations, enforceable investor protections and a rules-based court system would unlock a rerating. Without them, Kazakhstan risks remaining a low-valuation, resource-tilted market where returns rise and fall with the state's shifting footprint.

Early capital market access: Foreigners have long had access to the Kazakhstan Stock Exchange (KASE) and, since 2018, the Astana International Financial Centre (AIFC). Similar to Singapore's early financial-hub model or Dubai's DIFC, the AIFC is a legally distinct, tax-advantaged enclave designed to attract international capital and channel investment into Central Asia. The hub also houses the Astana International Exchange (AIX). In general, Kazakhstan's opened its stock market to foreign investors justsix years after independence – far ahead of Singapore, South Korea, or Taiwan, when judged at comparable stages of development (**Table 3**).

12 Please see *IMF*, "Republic of Kazakhstan: 2024 Article IV Consultation-Press Release; and Staff Report," dated January 31, 2025, available at imf.org.

TABLE 3
Kazakhstan Ahead Of The Game

MARKET	YEAR FOREIGNERS GAINED DIRECT ACCESS TO LOCAL EQUITIES*	GDP PC (CONSTANT 2017 $ PPP) AT THAT TIME**	YEARS FROM INDEPENDENCE/ CONFLICT	CAPITAL ACCOUNT STATUS
Kazakhstan (KASE)	**1997** (national treatment rule in July 1997 Securities Market Law)	$9 700	6 yrs after USSR break up	No quotas; free repatriation (except for a small list of strategic sectors)
Singapore	**1987** (foreign brokers admitted; last FX controls scrapped 1978)	$19 700	22 yrs after independence	Full convertibility; 0 % withholding on most trades
South Korea	**1992** (QFI scheme + daily cap)	$12 300	39 yrs after armistice	Tight caps until 1998; FX convertibility only in 1997
Taiwan	**1991** (Taiwan Fund; full QFII 1991 93)	$17 200	42 yrs after KMT retreat	Initial quota $50 m per investor; full liberalization 2003

* EARLIEST YEAR NON-RESIDENT INSTITUTIONS COULD BUY ORDINARY SHARES DIRECTLY, OUTSIDE CLOSED-END FUNDS.
SOURCES: KAZAKHSTAN SECURITIES-MARKET LAW (1997); MAS-SGX "INTERNATIONAL MEMBERSHIPS" CIRCULAR (1987); KOREA STOCK EXCHANGE ARCHIVES; TAIWAN FSC QFII RULES.
** WORLD BANK, PENN WORLD TABLE.

Sector breadth & private control: Kazakhstan's equity landscape is still small but not one-dimensional. The domestic KASE Index, with a market cap just above $7 billion, is dominated by financials (76%), followed by telecoms (15%), with only slivers of utilities and energy (2% each). The internationally tracked MSCI Kazakhstan USD Index is larger – about $10 billion, on the larger side of Frontier market peers – and tilts toward financials (72%) and energy (28%). Taken together, the two benchmarks give investors meaningful exposure to at least two sizeable, privately run sectors – finance and energy – plus a modest telecom and utilities presence. That mix is far broader than a one-stock frontier basket like Ukraine's and already more diversified than early-stage resource plays such as 1990s Saudi Arabia, even if Kazakhstan's weights still lean heavily on banks and hydrocarbons.

Diversification engine: Kazakhstan's geography gives it a natural springboard for diversification, yet its export profile still looks more like a petro-state than a logistics linchpin. Hydrocarbons account for 52% of exports, while primary commodities make up nearly 70% – one of the most concentrated baskets globally. To diversify, the government has launched SME-focused export-promotion programs, a single one-stop online portal, and a network of cross-border "hub" projects –most notably the Caspian Knot ports on the Middle Corridor – to turn the country from raw-material shipper into a transit and processing center.[13] However, infrastructure gaps and low private sector involvement act as a drag on diversification efforts.

Kazakhstan offers an enticing yet incomplete garrison state story. It checks roughly three of our five pillars – cheap security burden, early market access, and reasonable sector breadth – placing it ahead of Ukraine on our scorecard. Yet without deeper reform follow-through or real export diversification, it still trades like a low-valuation resource play, not the next Singapore, at least for now.

13 Please see *World Bank*, "The Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030," dated November 27, 2023, available at worldbank.org.

We are keeping an eye on the country because of recent political reforms that have seen the patronage networks of former President Nursultan Nazarbayev dismantled. Unlike its Middle Eastern peers, Kazakhstan has the advantage of being astride the critical Eurasian transportation corridor that would allow Europe and China to deepen their economic relationship. While that may not seem like an obvious direction of travel, it may become critical as the US retrenches its role as the consumer of last resort.[14]

UAE/GCC

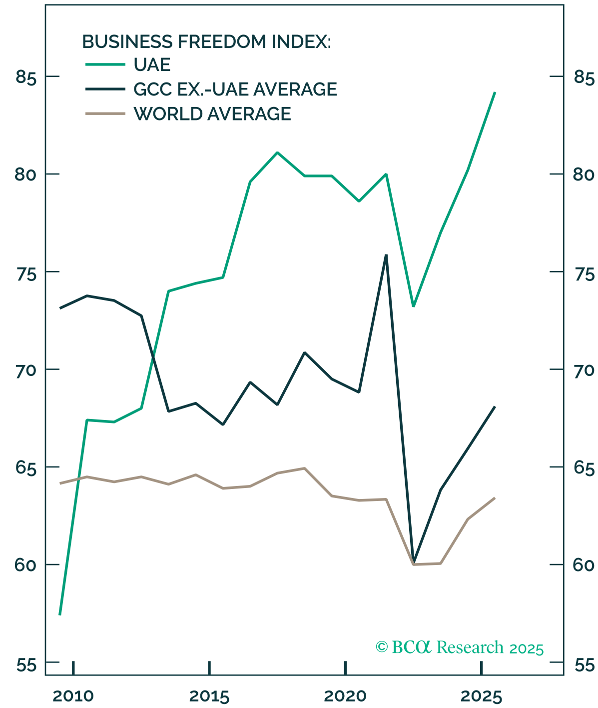
The UAE – and, by extension, the wider GCC – embodies the modern *geographical linchpin* model: a secure Gulf crossroads that is rapidly morphing into a regional financial and industrial hub. The region saw 51 IPOs in 2024 raising $12.4 billion – nearly 40% of all EMEA issuance.[15]

Security backstop: The region is too geographically important to endanger. Not just for the US, but also for America's chief rival China. In other words, too many overwhelmingly powerful countries all agree that oil should transit the Strait of Hormuz, thus essentially guaranteeing UAE's security. Only Russia would profit from a major calamity in the Middle East, but it hesitates to turn OPEC allies into open-ended enemies.

Big bang economic reform: Over the past five years the UAE has dismantled the last limits on foreign businesses. A 2020 amendment to the Commercial Companies Law scrapped the local-sponsor rule and now allows 100% foreign ownership for most onshore activities.[16] With one of the world's lowest corporate income tax rates at 9% and a business freedom score well above global and regional averages (**Chart 20**), the result is a rules-based, lightly taxed platform that rivals Singapore's in its liberalization sweep.

Early capital market access: The UAE opened its domestic bourses to foreigners early. Dubai Financial Market (DFM) launched in 2000 and Abu Dhabi Securities Exchange (ADX) in 2001 with no aggregate

CHART 20
UAE Leads On Business Friendliness



SOURCE: HERITAGE FOUNDATION.

14 Please see *BCA Research, GeoMacro Strategy, Beta Report*, "New Geopolitical Hardware Detected – Restart Required To Install Strategic Asset Allocation Updates," dated June 2025, available at bcaresearch.com.

15 Please see *EY*, "MENA IPO Eye: Q4 2024," available at ey.com.

16 Please see *United Arab Emirates' Government Portal*, "Full foreign ownership of commercial companies," dated July 4, 2024, available at u.ae.

foreign ownership caps on most issues, while the Dubai International Financial Centre has offered English-law trading via Nasdaq Dubai since 2005. The MSCI UAE market cap, at $137 bn, is the second largest in the region and places the UAE among the largest EM venues despite a population of just 10 million.

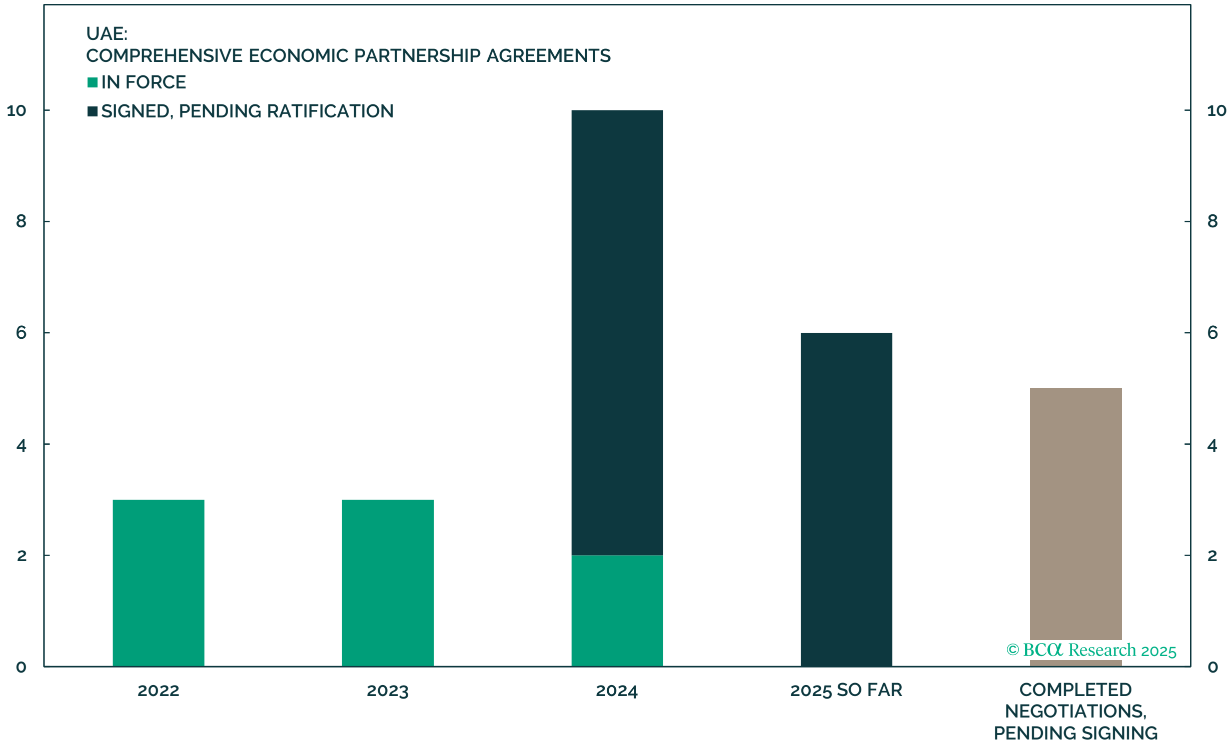
Sector breadth & private control: The MSCI UAE Index now gives investors exposure to banks, payments, telcos, logistics zones and a growing industrial base. State stakes persist in some giants, yet the government is steadily floating holdings: UAE IPOs raised $6.2 bn in 2024 alone – dominating the region in terms of proceeds.[17]

Diversification engine: Non-oil activity now contributes about 78% of UAE GDP, led by mining, trade, manufacturing, and finance. Beyond services, the Gulf is investing heavily in renewables under initiatives like Saudi Arabia's Vision 2030 and the UAE's Net Zero 2050 Strategy, and the surge of Comprehensive Economic Partnership Agreements (**Chart 21**) further anchors non-oil export growth.

The UAE/GCC scores strongly on capital market openness and reform zeal, shows solid sector breadth and is putting serious

[17] Please see *EY*, "MENA IPO Eye: Q4 2024," available at ey.com.

CHART 21
UAE's Trade Agreement Pipeline



SOURCE: GULF BUSINESS.

money behind diversification. Its informal but powerful "Hormuz consensus" supplies the de-facto security back-stop. Weak spots remain – equity indices still lean on banks and property, and true private sector depth outside free-zones is a work in progress – but the region already looks more like Singapore in the 1980s than a one-note petro-state.

Investment Implications

As the world continues to deepen a multipolar distribution of geopolitical power, our garrison state model is going to become more and more relevant. In this report, we reiterate our strategic overweight to the GCC region, identifying the UAE (but also its wider GCC peers) as the most obvious example of our model.

Two other potential future investment destinations – Ukraine and Kazakhstan – stand as examples of "too early, but interesting" garrison states. Ukraine is the simplest example, one that we believe will be quite profitable for investors over the next decade once the conflict with Russia ends. Kazakhstan is more intriguing because it is a bit more complicated. It is not so much a garrison state against an ally or a rogue state, but rather too important to meddle with for too many powerful neighbors. We are also intrigued by the reforms launched by the new President Kassym-Jomart Tokayev.

In the end, our three examples may or may not work. But what we have full confidence in is our investment model. The assertion we make here is that proximity to war is not always a kiss of death for investors. A plethora of historical examples illustrates this fact with some of the most profound EM success stories of the twentieth century being founded on our garrison state model. Rather than throwing the baby out with the bathwater, investors should shift to thinking of conflict-ridden zones as potential pressure cookers that produce diamonds. For now, we have confidence in our UAE/GCC pick. We suggest that Ukraine and Kazakhstan may be next. But there may be a plethora of other examples that we are simply unable to glean today.

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