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Global Situation Paradoxes: Demand for Trust

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The global economy and trade over the latest years have been developing into an increasingly more graphic paradox. On the one hand, new added value chains keep popping up and branching out, the largest part of the global economic environment is in its usual operating mode, on the other hand some of the chains are broken in a most abrupt fashion, whole regions are plunged into chaos, from yet another perspective there is ongoing search for solutions to replace missing logistics links, and then again there is still more sophisticated all-round hunt for violators of “sanctions”, which could be designated as such by hunters at their whim by any criterion, be it a company or a natural person. If a single word could be used to describe this, then turbulence would be the most innocuous choice. In point of fact, quite a significant part of industry and sector markets is engulfed by all kinds of trade and economic conflicts, drawn-out, situational, opportunistic, structural conflicts etc. The only question is, will this expanding part reach the “critical mass”, and if it does, when will it start a global landslide. This raises yet another question, could this catastrophic scenario still be prevented.

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Methods of resolution of present-day trade and economic conflicts have long gone beyond the regular competitive, legal, court arbitrage bounds. The “grey zone” of interaction is sprawling out, where outcomes are decided by cowboy battles of “new nomads”, new “economic killers”. From the economic perspective, unilateral restrictive practices are aimed at forced redistribution, and often just outright seizure of capitals, resources, rents, incomes, destruction of targeted businesses. From the systemic perspective, it is not only science and research, production, logistics cooperation configurations that are torn down, the foundations of the global currency and financial infrastructure are undermined as well.

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The infrastructure principles were laid out during the talks of the USA, Great Britain and the USSR on the post-war settlement in 1944-45, then were revised several times, but the main thing remains unchanged: the dominant status of the dollar and the Western countries in the global currency and financial system and control (voting quotas, staffing) over a group of international organizations – economy regulators. This allows the USA to extract a palpable rent benefit from seigniorage, in macroeconomic terms, through issue of the dollar both as a domestic and as a global currency. However, the 80-year use of this unique benefit was accompanied by a significant net outflow of capital from the USA with development of the most marginal complexes for added value generation outside of the country. The costs to support the global military and economic infrastructure kept on growing. This resulted in a consistent trend of falling return on invested capital in the USA. In 2010s signs that further globalization was no longer profitable for the USA (as growth of the global trade share in the global GDP) started showing up. Trumpism with its “Make America Great Again” maxim starting from 2016 became a demonstration of interests of those American business strata, which had bet on bringing back production capacity and putting the financial capital under the jurisdiction and in the territory of the USA, and also reducing the economic burden of their leadership. All this is happening at the background of a long-term trend for weakening positions of the Western coalition almost by all parameters and rising economic weight and influence of states, currently represented by the BRICS+ extended group.

In part, these two groups face common challenges, but parrying strategies invariably differ. The Western coalition made a bet on its consolidation as a “garden”, surrounded by “jungle”. In reality, there is no full control and concord within the Western coalition, nor there could be any. Consolidation is supposed to be based on a rather tough intraspecific competition. This is what happened before, in 1940-1956, when the allied USA and the Great Britain performed quite a painful process of change of the currency and financial and foreign policy hegemony, while being formal partners. This also happened later on, when the USA purposefully suppressed excessive, in their opinion, investment growth rates in Germany and Japan. And in our times, disciplining allies in the sphere of narrative, sanctions and building supply chains remains a vital and complicated task for the leader of the Western world. The deep-down interest of the Western coalition is quite transparent: considering the perspective of further increase of the economic and demographic weight of the “Global South”, including BRICS+ countries at its core, succeed in making a transition to a new technological paradigm and based on that, guarantee its existing advantages in the global economy and politics structure and resulting economic benefits for 1-2 generations.

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The strategy of BRICS+ countries, which are today institutionally a much more amorphous, “soft” union, is related to the call for a more harmonious, fair organization of global trade, investments, resolution of existing issues under 17 UN SDG goals, settlement of conflicts. The share of mutual trade and investment between the key member states of BRICS+ at present, generally, is many times lower than their trade turnover volumes with Western countries. The trade between Russia and China, for example, is steadily rising, but remains about 4 times lower than that between China and the USA or the EU. This objectively makes some Chinese partners vulnerable to secondary sanctions from the USA or the EU, and consequently, forces them to avoid cooperation with Russian counterparties.

At present there is the New Development Bank, established by the BRICS, trade in national currencies is expanding, opportunities for development of a standalone payment and settlement system are being discussed. The topic of payment and settlement institutions was one of the central items on the summit’s agenda. But if the countries displayed their apparent unity, being displeased with the current status of things, then approaches to practical solutions were only outlined. To a large degree it was caused by actual issues with launching a new global financial infrastructure, while the current, dollar-dependent infrastructure, despite all existing issues, still provides for the most part of the modern trade turnover and financial interactions. For this reason, the BRICS+ countries for now tend to choose solutions, improving the current situation. This aspiration includes realization of both the key issue and the key opportunity to make the global currency and financial, social and economic situation. This means trust of partners in each other. Distrust begets fear, fear begets madness. As Winston Churchill, well-versed in geopolitics, once noted: “I decline utterly to be impartial between the fire brigade and the fire”.

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