

O. G. Karpovich<sup>1</sup>

### CONTOURS OF A NEW WORLD ORDER IN THE CONTEXT OF TODAY'S GLOBAL CHANGES

In the recent decades, the processes of gradual change in the balance of power between the traditionally leading players in the international arena and their influence on the international political situation and the system of trade and economic relations, and emergence of new actors in these processes, are the factors that are ever more urgently calling for including the transformation of the world economic order, and the world monetary system in particular, in the practical agenda.

Shaped in 1944 at the end of World War II at Bretton Woods, the foreign exchange system cemented the dollar's role as the world's main reserve currency. The dollar standard was adopted, the American currency becoming the basic unit of payment used in international settlements, the only currency partially convertible into gold, the currency of interventions and reserve assets.

The U.S. government assumed an obligation to maintain a constant price for gold, and to exchange all dollar cash into gold at the request of the Bretton Woods System member countries. International institutions such as the International Monetary Fund and the International Bank for Reconstruction and Development were created to support this system. Later, in 1947, came the General Agreement on Tariffs and Trade, transformed into the World Trade Organization in 1995.

After 30 years, the U.S. was no longer able to maintain a national currency peg to the gold standard. In August 1971, President R. Nixon announced a "temporary ban on the exchange of dollars for gold," thereby effectively initiating the process of terminating the Bretton Woods system, and in 1976, as a result of the Jamaica Conference, the

foreign exchange system was converted under the terms of floating rates, commensurate in the international currency market, while maintaining the dominant role of the dollar.

On January 1, 1999, euro was introduced in non-cash circulation, and on January 1, 2002 – in cash circulation. Today it is the second most important reserve world currency.

Despite the somewhat weakened position today, the United States continues to be the most powerful political, economic and military power in the world, and the dollar remains the world's main reserve and settlement currency. In addition, U.S. liabilities circulating on the international financial market (about 30 trillion dollars) have a significant impact on the countries, funds and private investors who hold them.

At the same time, unexpectedly for the rivals, there is the rapidly growing, particularly political and military, influence of Russia; China that is aggressively winning leading positions in the global industrial and trade-economic competition, and emerging new players such as India, Brazil, Turkey, and several other countries who are becoming stronger and claiming an independent role. In this context, the once unconditional leadership of the United States is gradually fading. The logic of the situation is increasingly calling for changes in the world order in order to adapt to the new reality. These trends are becoming especially pronounced in the system of international economic relations and in the settlement infrastructure and instruments (primarily the U.S. dollar) that serve them.

The situation in the global economy and in the world financial market has been dramatically aggravated by the losses incurred by most of the world economies as a result of the coronavirus pandemic that began in 2019. According to some experts, in 2020 the pandemic resulted in a reduction of trade in goods by 8% and in commercial services by 21% year on year. According to the Organization for Economic Cooperation and Development, by the end of 2021, the economies of the world lost about 7 trillion U.S. dollars in total.

The refusal of the U.S. and NATO to actually consider the proposals to take into account the Russian national interests and the principle of indivisibility of security, en-

<sup>1</sup> Vice Rector for Research at the Diplomatic Academy of the Ministry of Foreign Affairs of Russia, Dr. Sc. (Law), Dr. Sc. (Political Sciences), Professor. Author of more than 450 scientific publications, including monographs: "Economic Crime in Russia. Theory and Practice of Counteraction," "Global Problems and International Relations," etc.; chapters in collective monographs: "Strategic Nuclear Arms in the History of International Relations of the 20th–21st Centuries," "New Technologies in Diplomacy," etc.; papers: "European Union Climate Policy: Time for Responsible Decisions" (co-authored), "U.S.-European Relations after the Withdrawal of U.S. Forces from Afghanistan" (co-authored), and others. Full member of the Academy of "Military Sciences" of the Russian Federation, the Russian Academy of Legal Sciences, and the Russian Academy of Natural Sciences. Chairman of the editorial board of the journal *Bulletin of International Scientists*, member of the editorial boards of a number of scientific journals.

shrined in 1999 by the Istanbul Charter of European Security and the Astana Declaration on the results of the summit of the Organization for Security and Cooperation in Europe in 2010, as well as the sharply negative response of the West to our country's special operation in Ukraine led to an explosive systemic crisis – direct and acute political, economic, informational and indirect military confrontation.

The massive sanctions regime imposed on the Russian Federation today, including disconnection from the SWIFT system, a ban on dollar transactions and freezing of foreign exchange and gold assets, directly violates the principles of international law and the practice of international economic relations. As a result, the strategy of using economic leverage as a “weapon of retaliation” against one of the world's leading powers by the U.S. and NATO objectively undermines the principles of the international monetary and financial system, creates a significant disruption in the system of foreign trade exchanges, credibility of the United States as the guarantor power of the safety of foreign assets for many countries, the legislator of the rules and regulations to maintain international economic stability, as well as the dollar as the basis of the international monetary system.

As a consequence of the sanctions imposed against Russia, narrowing of the supply of important goods (hydrocarbons, some food products (e.g., grain, sunflower oil), metals, mineral fertilizers, etc.) in international markets is inevitable, as is the disruption of the established cooperative chains that largely determine the economic situation and social stability in many countries of the world.

Today one can confidently speak of intensification of the processes diluting the role of dollar. The development of the situation under this scenario and its expansion will inevitably lead to an aggravation in the economic and financial crises in the world. Obviously, the emerging scenario and its imminent consequences can no longer be ignored by the leadership and financial structures of many countries around the world, regardless of their political orientation and trade and economic priorities.

In this context, the ability to maintain solidarity within the ranks of the anti-Russian coalition and the prospect of its expansion will be crucial for Washington. Even now, despite the large economic costs the EU would incur if it refused to buy Russian hydrocarbons, we are learning about the intentions of the Europeans to implement plans for alternative schemes of oil supplies to the countries of the Union. The reasons for this are purely political. Europe, which has abandoned its claims to military, political and economic sovereignty, will be forced at this stage to fully follow the course declared by Washington.

At the same time, the threshold factors for the Europeans may go beyond the level of price to be paid for the policy of Russia's blockade with sanctions. The prospect of inevitable and significant reductions in national economies, deteriorating social standards, and the resulting aggravation of the domestic political situation is bound to have an ever-growing impact on the policies of the countries of the region. If losses of the EU countries-consumers of Russian hydrocarbons will be too severe, it is highly likely that, given the reluctance of the U.S. to provide substantial support to Europe, the disagreements between the EU countries may increase significantly and eventually lead to the desynchronization of rates in relation to the purchase of Russian hy-

drocarbons and possibly in a number of product items critical for Europeans.

It was quite telling that Europeans used various combinations to circumvent the U.S. sanctions against Iran agreed upon with the EU. As the real course of events shows, this situation will be inevitably reproduced one way or another in the current conditions with regard to the embargo on Russia.

The acutely negative initial reaction of the EU governing bodies to Russia's demand to pay for gas under a scheme that provides for Russian gas suppliers to receive funds into their accounts in rubles is gradually changing to a less definite formula, worked out by the EU Commission, making gas purchases from Russia possible “without violating the sanctions regime.” A number of European countries have already agreed at the national level to pay for gas in rubles, while others are currently working on this issue. The inevitable negative consequences of cutting off gas supplies to countries with the most radical position will eventually force their leaders to take a more sensible approach to this problem.

Further actions by the Russian leadership only exacerbate the difficult situation for Western European countries. On March 7, 2022, the Kremlin published a list of countries unfriendly to Russia, including EU states. This was followed by a series of presidential decrees and Russian government documents regulating and toughening nearly all trade and economic relations with unfriendly countries, which the latter perceive as Russian countermeasures. Presidential Decree No. 52 “On application of retaliatory special economic measures in connection with unfriendly actions of some foreign states and international organizations” came into force on May 3.

Against this background, we should expect serious negative consequences for European countries not only in the economic, but also in the social sphere. By taking an extremely unrelenting stance, Russia will drive the Europeans into a corner and force them to seek a way out through compromise and dialogue with our country. This, in turn, will lead to an increase in contradictions between European countries and the United States who pressure their allies to counter any violation in the coalition discipline, while simultaneously promoting their interests in the European markets.

Such a scenario could objectively contribute to the “revival” of attempts of the European states to formulate a kind of “sovereign and independent” pan-European policy, including security matters, with establishment of appropriate regional structures. They have been working in this direction within the EU with varying progress for quite a while. The current French President E. Macron has repeatedly articulated the idea of greater European autonomy, up to the creation of a European army, clearly claiming to be the leader of such processes.

So far, such excessive autonomy has been successfully suppressed by Washington. However, the claims for greater independence have not been completely eradicated in the ranks of Europeans, and the events in Ukraine will obviously play the role of a catalyst for these processes, which can develop quite unexpectedly in the conditions of the new, so far provisional, world order.

Participation of the US President J. Biden in the NATO, EU, and G7 summits in Brussels on March 24–25, 2022,

and his trip to Poland on March 26 for negotiations with the Polish President A. Duda and meetings with American servicemen were aimed at strengthening the anti-Russian coalition and giving the European wing of NATO more determination in opposing Russia. In this regard, the concerted continuation of the sanctions policy against Russia and an increase in assistance aimed at improving AFU defense capabilities were expectable.

Some of the decisions were more prominent, like establishment of a “joint (U.S. and EU) task force for development of an action plan to enhance European energy security,” as well as Biden’s statement that the U.S. and NATO “will respond to Russia’s use of chemical weapons.” This statement could be interpreted as creating preconditions for the use of military force in Ukraine. Its impact, however, was substantially tempered by the American president’s words that “the nature of the response will depend on the nature of use.”

The summit also approved the defense concept of the “EU Strategic Compass” adopted on March 21 this year by the Foreign Affairs Council of the European Union for the period until 2030. In particular, the concept stipulates that a stronger EU in terms of defense and security will contribute to global transatlantic security and complement NATO’s capabilities, and provides for the creation of a rapid response force consisting of five thousand members.

The very fact that so many events vital for Western countries have been held within three days on short notice raised expectations of unprecedented measures against Russia that would force Kremlin to retreat. However, the “modest” results of the past summits and Biden’s European tour will be rather perceived as a reflection of the West’s confusion and its attempt to “save face,” as well as a demonstration of Washington’s capabilities that have already become limited.

The same context applies to the results of consultations held by the leaders of U.S., Great Britain, Germany, France, Italy, Japan, Canada, Romania and Poland on April 19, 2022 in videoconference format, attended by President of the European Council Ch. Michel and President of the European Commission U. von der Leyen, and also to the meeting of defense ministers of NATO and its allies (the participants were from over 40 countries) held at American base Ramstein in Germany on April 26, 2022, and initiated by the U.S. They resulted in formulation of the main goal: to prevent the success of the Russian special military operation in Ukraine, and an essentially agreed upon action plan for its implementation, including, inter alia, providing Kiev with financial aid, sending weapons, including heavy ones, and military supplies to the conflict zone, and stepping up efforts to isolate Russia from the world.

At the same time, the system of “red lines” officially prepared by the Russian leadership and presented to the United States and NATO is, in fact, a claim for a radical reorganization of the hitherto existing global political order, as well as the global security system. Implementation of the declared goals of the operation in Ukraine (if the scenario is successful for Russia) and the demonstrated resistance to massive pressure from the United States and NATO will objectively work to further intensify the processes of shaping a new world order and – as one of its fundamental components – transformation of the world monetary and economic system. In this context, the U.S. administration’s policy of

simultaneous active confrontation and containment of Russia and China significantly complicates the implementation of U.S. intentions and, on the contrary, further pushes Beijing to work closely with Russia, creating a basis for increasing mutual support.

In the current situation, efforts to further expand the circle of participants in the anti-Russian alliance are extremely important to the U.S. administration. According to the current developments, most of the “second and third league” states have taken a wait-and-see attitude at this stage. It is quite symptomatic that the UN General Assembly votes on the anti-Russian resolutions “Aggression against Ukraine” of March 2 and “Humanitarian consequences of aggression against Ukraine” of March 24, 2022, did not lead to an expansion of the anti-Russian coalition. The attempts of the U.S. and British leaders to persuade China and India to support the sanctions regimes and the policy of Russia’s isolation have not yet rendered any results. Biden’s and British Prime Minister B. Johnson’s efforts have proved fruitless as well in their attempts to encourage Saudi Arabia and the United Arab Emirates to increase their oil production.

As for another problem much discussed in the world, that of the prospects for establishment of a new world monetary and financial system, as in the previous periods, its outlines will largely depend on the specific parameters of the new world order, which is very likely to begin to actively form based on the results of the discussion between Russia and the United States on the conditions of the new international security system and operation on the demilitarization and denationalization of Ukraine, with close involvement of other actors in these processes, first of all China and India. It seems that in the new conditions, establishment of a single monetary system is hardly realistic – the differences in the positions and claims of the leading state actors and their associations will be too great, while the “allergy” of many countries to the policy presently pursued by the United States may be too significant.

It is safe to predict an increasing trend towards regionalization of the global economic space on the basis of simultaneous and parallel development of several currency systems: the dollar system based on the yuan, which can claim to be the second most important one, the euro and (in case of favorable developments) the ruble. Other options, such as the rupee, cannot be completely ruled out. Another possible development path suggests the search for a neutral system acceptable to all, based on the principle e.g. of the Special Drawing Rights (SDR) created in 1969 under the International Monetary Fund or based on the functioning of cryptocurrency, another system acceptable to all.

Weakening of the dollar as a result of the impending systemic political and economic crisis against the background of unfavorable processes (a certain loss of credibility as a reliable repository of gold and foreign exchange reserves, growth of public debt to 128% of GDP (data of February 4, 2022), inflation to 8%, etc.) will seriously pressure the American economy. Thus, on March 21 this year, J. Powell said that the Federal Reserve System headed by him is ready to abandon its support of the economy in order to curb inflation. He acknowledged that “reducing inflation without severely damaging the U.S. economy is no easy task.” At the same time J. Powell said they were ready to “take aggressive steps and increase the federal funds rate by more than 25 basis points.”

In these conditions, the gradual decline in the role of the U.S., even though it may become more obvious and intense, will nevertheless be quite long, uneven, fraught with new aggravations of the international political situation and volatility of global and regional economic and monetary-economic processes. Drivers of weakening of the dollar will be for a long time largely constrained and offset by its continuing significance as the most common global currency of trade and economic transactions and international settlements for a large number of states-allies of the U.S., active efforts to maintain its importance by the Americans themselves in their immediate zone of political and economic influence, as well as the inertia of established stereotypes for many countries in the world. The process of the dollar's weakening, even if it accelerates significantly, is unlikely to be dramatic.

Obviously, one of the alternative systems will be based on the yuan. Beijing expects to turn the yuan into one of the most popular units of settlement and make it the world's reserve currency and a real alternative to the dollar. China has launched and is actively promoting abandonment of the U.S. dollar for quite some time now. As Russia's trade turnover with China grows, our countries are increasing the volume of settlements between each other in their national currencies. So, in 2021, about 25% of mutual settlements in foreign trade between China and Russia were made in rubles and yuan.

According to a statement (March 14, 2022) made by the Minister for Integration and Macroeconomics of the Eurasian Economic Commission S. Glazyev, the Eurasian Economic Union (EAEU) and China will develop a draft of the independent international currency system, which is expected to be based on a new international currency and calculated as an index of a basket of national currencies of member countries and prices of exchange-traded goods. It is expected that the draft will be presented for discussion in the nearest future.

It is also quite indicative that Russia and India who are discussing settlement of foreign trade transactions in their national currencies, are ready to consider the yuan as the base currency. A number of countries of the Association of Southeast Asian Nations (ASEAN) are also gradually abandoning the U.S. currency in mutual trade in favor of national currencies. Japan and Indonesia, as well as Thailand, Malaysia, Indonesia, and the Philippines, have already signed agreements for transition to such transactions in cross-border trade. At the same time, China still has a long way to go, e.g. to overcome the obstacles posed by the fact that the yuan remains only partially convertible today.

The ruble, which many experts consider significantly undervalued, will also be able to function as a regional currency. The developing practice of trade between Russia and a number of countries in national currencies will also contribute to this. However, this process will be seriously constrained by the ruble's current status of an unstable speculative currency. At the initial stage, efforts to introduce it as a regional currency will be supported mainly by political factors, primarily in the territory of the former Soviet Union.

In the broader space, the emphasis will be made on the transition to ruble in settlements for goods for which Russia is a traditionally leading supplier. Expanding the zone

of the ruble to serve trade and economic exchanges in national currencies in a bilateral format with the BRICS states (Brazil, Russia, India, China, South Africa), *Shanghai Cooperation Organization* (SCO), the EAEU and possibly a number of ASEAN countries will also become an important vector of Russia's foreign economic activity. Establishment of the ruble as a regional reserve currency and consolidation of its position will be facilitated by a consistent policy of transitioning and expanding the zone of foreign trade transactions, both by nomenclature of goods and by the list of counterpart countries. Along with the implementation of this line, there will be an increasingly pressing need for measures to stabilize the ruble, or possibly a monetary reform.

In the process of forming a new world order, which will take into account the results of the operation in Ukraine, Russia may have a good chance of gaining more political and, consequently, economic weight in the world, as well as strengthening its position in the dialogue on global security issues. However, the period when political dividends and technical military arguments will be able to provide stability and strengthen the role of Russia and its national currency in the global affairs is not likely to last very long.

The decision of the Russian President to switch payments for gas supplies to unfriendly countries to rubles and his instruction to the Cabinet, the Central Bank of Russia and Gazprom to implement measures to change the currency of payment by March 31, 2022, was an important, albeit forced, step. This decision will have serious financial, economic and, obviously, political consequences. The Russian president, who announced in his speech the introduction of this initial retaliatory measure against unfriendly countries, mentioned that trading gas for rubles was only the first step. It is already clear that, despite the first reaction of the U.S. and the EU, this step, in fact, puts Russia's opponents in a stalemate.

Implementing this line will not be easy and will take some time. However, some of the countries have already declared their willingness to switch to the new standards. As for the other states, including those that manifest the most aggressive and hostile behavior against Russia, their actions in this matter will ultimately be determined not only by political, but also by social economic factors.

Russia's ability to back up its political and technical military arguments with positive results in consolidating its economic status will be critical in terms of reinforcing its position as one of the world's leading superpowers. In this context, the need to accelerate the processes of economic and technological development of the country becomes the main challenge for the Russian leadership.

The success of this course will determine not only our country's role in the world, its interaction with major opponents and fellow countries, such as China and India, but also our country's position in global international and regional associations. In the meantime, when planning the political and economic course for the medium and especially long term, in an effort to eliminate the dangers posed by our traditional opponent, the United States, it is important to constantly keep in mind the possible negative consequences for Russia of being confined to the echelon of the other global economic leader, China.